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(Original Signature of Member)

106TH CONGRESS  
1ST SESSION

**H. R.** \_\_\_\_\_

\_\_\_\_\_  
IN THE HOUSE OF REPRESENTATIVES

Mr. ARCHER introduced the following bill; which was referred to the  
Committee on \_\_\_\_\_

\_\_\_\_\_  
**A BILL**

To amend the Internal Revenue Code of 1986 to reduce individual income tax rates, to provide marriage penalty relief, to reduce taxes on savings and investments, to provide estate and gift tax relief, to provide incentives for education savings and health care, and for other purposes.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE; ETC.**

2 (a) SHORT TITLE.—This Act may be cited as the  
3 “Financial Freedom Act of 1999”.

4 (b) AMENDMENT OF 1986 CODE.—Except as other-  
5 wise expressly provided, whenever in this Act an amend-  
6 ment or repeal is expressed in terms of an amendment  
7 to, or repeal of, a section or other provision, the reference  
8 shall be considered to be made to a section or other provi-  
9 sion of the Internal Revenue Code of 1986.

10 (c) SECTION 15 NOT TO APPLY.—No amendment  
11 made by this Act shall be treated as a change in a rate  
12 of tax for purposes of section 15 of the Internal Revenue  
13 Code of 1986.

14 (d) TABLE OF CONTENTS.—The table of contents for  
15 this Act is as follows:

Sec. 1. Short title; etc.

**TITLE I—BROAD-BASED TAX RELIEF**

**Subtitle A—10-Percent Reduction in Individual Income Tax Rates**

Sec. 101. 10-percent reduction in individual income tax rates.

**Subtitle B—Marriage Penalty Tax Relief**

Sec. 111. Elimination of marriage penalty in standard deduction.

Sec. 112. Elimination of marriage penalty in deduction for interest on edu-  
cation loans.

Sec. 113. Rollover from regular IRA to Roth IRA.

**Subtitle C—Repeal of Alternative Minimum Tax on Individuals**

Sec. 121. Repeal of Alternative Minimum Tax on Individuals.

**TITLE II—RELIEF FROM TAXATION ON SAVINGS AND  
INVESTMENTS**

Sec. 201. Exemption of certain interest and dividend income from tax.

Sec. 202. Reduction in individual capital gain tax rates.

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- Sec. 203. Capital gains tax rates applied to capital gains of designated settlement funds.
- Sec. 204. Special rule for members of uniformed services and foreign service, and other employees, in determining exclusion of gain from sale of principal residence.
- Sec. 205. Treatment of certain dealer derivative financial instruments, hedging transactions, and supplies as ordinary assets.
- Sec. 206. Worthless securities of financial institutions.

### TITLE III—INCENTIVES FOR BUSINESS INVESTMENT AND JOB CREATION

- Sec. 301. Reduction in corporate capital gain tax rate.
- Sec. 302. Repeal of alternative minimum tax on corporations.

### TITLE IV—EDUCATION SAVINGS INCENTIVES

- Sec. 401. Modifications to education individual retirement accounts.
- Sec. 402. Modifications to qualified tuition programs.
- Sec. 403. Exclusion of certain amounts received under the National Health Service Corps scholarship program, the F. Edward Hebert Armed Forces Health Professions Scholarship and Financial Assistance Program, and certain other programs.
- Sec. 404. Additional increase in arbitrage rebate exception for governmental bonds used to finance educational facilities.
- Sec. 405. Modification of arbitrage rebate rules applicable to public school construction bonds.
- Sec. 406. Repeal of 60-month limitation on deduction for interest on education loans.

### TITLE V—HEALTH CARE PROVISIONS

- Sec. 501. Deduction for health and long-term care insurance costs of individuals not participating in employer-subsidized health plans.
- Sec. 502. Long-term care insurance permitted to be offered under cafeteria plans and flexible spending arrangements.
- Sec. 503. Expansion of availability of medical savings accounts.
- Sec. 504. Additional personal exemption for taxpayer caring for elderly family member in taxpayer's home.
- Sec. 505. Expanded human clinical trials qualifying for orphan drug credit.
- Sec. 506. Inclusion of certain vaccines against streptococcus pneumoniae to list of taxable vaccines.

### TITLE VI—ESTATE TAX RELIEF

#### Subtitle A—Repeal of Estate, Gift, and Generation-Skipping Taxes; Repeal of Step Up in Basis At Death

- Sec. 601. Repeal of estate, gift, and generation-skipping taxes.
- Sec. 602. Termination of step up in basis at death.
- Sec. 603. Carryover basis at death.

#### Subtitle B—Reductions of Estate and Gift Tax Rates Prior to Repeal

- Sec. 611. Additional reductions of estate and gift tax rates.

#### Subtitle C—Unified Credit Replaced With Unified Exemption Amount

## 4

Sec. 621. Unified credit against estate and gift taxes replaced with unified exemption amount.

Subtitle D—Modifications of Generation-Skipping Transfer Tax

Sec. 631. Deemed allocation of GST exemption to lifetime transfers to trusts; retroactive allocations.

Sec. 632. Severing of trusts.

Sec. 633. Modification of certain valuation rules.

Sec. 634. Relief provisions.

TITLE VII—TAX RELIEF FOR DISTRESSED COMMUNITIES AND INDUSTRIES

Subtitle A—American Community Renewal Act of 1999

Sec. 701. Short title.

Sec. 702. Designation of and tax incentives for renewal communities.

Sec. 703. Extension of expensing of environmental remediation costs to renewal communities.

Sec. 704. Extension of work opportunity tax credit for renewal communities

Sec. 705. Conforming and clerical amendments.

Sec. 706. Evaluation and reporting requirements.

Subtitle B—Farming Incentive

Sec. 711. Production flexibility contract payments.

Subtitle C—Oil and Gas Incentive

Sec. 721. 5-year net operating loss carryback for losses attributable to operating mineral interests of independent oil and gas producers.

Subtitle D—Timber Incentive

Sec. 731. Increase in maximum permitted amortization of reforestation expenditures.

Subtitle E—Steel Industry Incentive

Sec. 741. Minimum tax relief for steel industry.

TITLE VIII—RELIEF FOR SMALL BUSINESSES

Sec. 801. Deduction for 100 percent of health insurance costs of self-employed individuals.

Sec. 802. Increase in expense treatment for small businesses.

Sec. 803. Repeal of Federal unemployment surtax.

Sec. 804. Restoration of 80 percent deduction for meal expenses.

TITLE IX—INTERNATIONAL TAX RELIEF

Sec. 901. Interest allocation rules.

Sec. 902. Look-thru rules to apply to dividends from noncontrolled section 902 corporations.

Sec. 903. Clarification of treatment of pipeline transportation income.

Sec. 904. Subpart F treatment of income from transmission of high voltage electricity.

Sec. 905. Recharacterization of overall domestic loss.

## 5

- Sec. 906. Treatment of military property of foreign sales corporations.
- Sec. 907. Treatment of certain dividends of regulated investment companies.
- Sec. 908. Repeal of special rules for applying foreign tax credit in case of foreign oil and gas income.
- Sec. 909. Study of proper treatment of European Union under same country exceptions.
- Sec. 910. Application of denial of foreign tax credit with respect to certain foreign countries.
- Sec. 911. Advance pricing agreements treated as confidential taxpayer information.
- Sec. 912. Increase in dollar limitation on section 911 exclusion.

TITLE X—PROVISIONS RELATING TO TAX-EXEMPT  
ORGANIZATIONS

- Sec. 1001. Exemption from income tax for State-created organizations providing property and casualty insurance for property for which such coverage is otherwise unavailable.
- Sec. 1002. Modification of special arbitrage rule for certain funds.
- Sec. 1003. Charitable split-dollar life insurance, annuity, and endowment contracts.
- Sec. 1004. Exemption procedure from taxes on self-dealing.
- Sec. 1005. Expansion of declaratory judgment remedy to tax-exempt organizations.
- Sec. 1006. Modifications to section 512(b)(13).

TITLE XI—REAL ESTATE PROVISIONS

Subtitle A—Provisions Relating to Real Estate Investment Trusts

PART I—TREATMENT OF INCOME AND SERVICES PROVIDED BY TAXABLE  
REIT SUBSIDIARIES

- Sec. 1101. Modifications to asset diversification test.
- Sec. 1102. Treatment of income and services provided by taxable REIT subsidiaries.
- Sec. 1103. Taxable REIT subsidiary.
- Sec. 1104. Limitation on earnings stripping.
- Sec. 1105. 100 percent tax on improperly allocated amounts.
- Sec. 1106. Effective date.

PART II—HEALTH CARE REITS

- Sec. 1111. Health care REITs.

PART III—CONFORMITY WITH REGULATED INVESTMENT COMPANY RULES

- Sec. 1121. Conformity with regulated investment company rules.

PART IV—CLARIFICATION OF EXCEPTION FROM IMPERMISSIBLE TENANT  
SERVICE INCOME

- Sec. 1131. Clarification of exception for independent operators.

PART V—MODIFICATION OF EARNINGS AND PROFITS RULES

- Sec. 1141. Modification of earnings and profits rules.

## 6

## PART VI—STUDY RELATING TO TAXABLE REIT SUBSIDIARIES

Sec. 1151. Study relating to taxable REIT subsidiaries.

## Subtitle B—Modification of At-Risk Rules for Publicly Traded Securities

Sec. 1161. Treatment under at-risk rules of publicly traded nonrecourse debt.

## Subtitle C—Treatment of Construction Allowances and Certain Contributions To Capital of Retailers

Sec. 1171. Exclusion from gross income of qualified lessee construction allowances not limited for certain retailers to short-term leases.

Sec. 1172. Exclusion from gross income for certain contributions to the capital of certain retailers.

## TITLE XII—PROVISIONS RELATING TO PENSIONS

## Subtitle A—Expanding Coverage

Sec. 1201. Increase in benefit and contribution limits.

Sec. 1202. Plan loans for subchapter S owners, partners, and sole proprietors.

Sec. 1203. Modification of top-heavy rules.

Sec. 1204. Elective deferrals not taken into account for purposes of deduction limits.

Sec. 1205. Reduced PBGC premium for new plans of small employers.

Sec. 1206. Reduction of additional PBGC premium for new and small plans.

Sec. 1207. Repeal of coordination requirements for deferred compensation plans of State and local governments and tax-exempt organizations.

Sec. 1208. Elimination of user fee for requests to IRS regarding pension plans.

Sec. 1209. Deduction limits.

Sec. 1210. Option to treat elective deferrals as after-tax contributions.

## Subtitle B—Enhancing Fairness for Women

Sec. 1211. Additional salary reduction catch-up contributions.

Sec. 1212. Equitable treatment for contributions of employees to defined contribution plans.

Sec. 1213. Faster vesting of certain employer matching contributions.

Sec. 1214. Simplify and update the minimum distribution rules.

Sec. 1215. Clarification of tax treatment of division of section 457 plan benefits upon divorce.

## Subtitle C—Increasing Portability for Participants

Sec. 1221. Rollovers allowed among various types of plans.

Sec. 1222. Rollovers of IRAs into workplace retirement plans.

Sec. 1223. Rollovers of after-tax contributions.

Sec. 1224. Hardship exception to 60-day rule.

Sec. 1225. Treatment of forms of distribution.

Sec. 1226. Rationalization of restrictions on distributions.

Sec. 1227. Purchase of service credit in governmental defined benefit plans.

Sec. 1228. Employers may disregard rollovers for purposes of cash-out amounts.

Sec. 1229. Minimum distribution and inclusion requirements for deferred compensation plans of State and local governments.

## Subtitle D—Strengthening Pension Security and Enforcement

## 7

- Sec. 1231. Repeal of 150 percent of current liability funding limit.
- Sec. 1232. Maximum contribution deduction rules modified and applied to all defined benefit plans.
- Sec. 1233. Missing participants.
- Sec. 1234. Excise tax relief for sound pension funding.
- Sec. 1235. Excise tax on failure to provide notice by defined benefit plans significantly reducing future benefit accruals.

## Subtitle E—Reducing Regulatory Burdens

- Sec. 1241. Repeal of the multiple use test.
- Sec. 1242. Modification of timing of plan valuations.
- Sec. 1243. Flexibility and nondiscrimination and line of business rules.
- Sec. 1244. Substantial owner benefits in terminated plans.
- Sec. 1245. ESOP dividends may be reinvested without loss of dividend deduction.
- Sec. 1246. Notice and consent period regarding distributions.
- Sec. 1247. Repeal of transition rule relating to certain highly compensated employees.
- Sec. 1248. Employees of tax-exempt entities.
- Sec. 1249. Clarification of treatment of employer-provided retirement advice.
- Sec. 1250. Provisions relating to plan amendments.
- Sec. 1251. Model plans for small businesses.
- Sec. 1252. Simplified annual filing requirement for plans with fewer than 25 employees.
- Sec. 1253. Intermediate sanctions for inadvertent failures.

## TITLE XIII—MISCELLANEOUS PROVISIONS

## Subtitle A—Provisions Primarily Affecting Individuals

- Sec. 1301. Exclusion for foster care payments to apply to payments by qualified placement agencies.
- Sec. 1302. Mileage reimbursements to charitable volunteers excluded from gross income.
- Sec. 1303. W-2 to include employer social security taxes.

## Subtitle B—Provisions Primarily Affecting Businesses

- Sec. 1311. Distributions from publicly traded partnerships treated as qualifying income of regulated investment companies.
- Sec. 1312. Special passive activity rule for publicly traded partnerships to apply to regulated investment companies.
- Sec. 1313. Large electric trucks, vans, and buses eligible for deduction for clean-fuel vehicles in lieu of credit.
- Sec. 1314. Modifications to special rules for nuclear decommissioning costs.
- Sec. 1315. Consolidation of life insurance companies with other corporations.

## Subtitle C—Provisions Relating to Excise Taxes

- Sec. 1321. Consolidation of Hazardous Substance Superfund and Leaking Underground Storage Tank Trust Fund.
- Sec. 1322. Repeal of certain motor fuel excise taxes on fuel used by railroads and on inland waterway transportation.
- Sec. 1323. Repeal of excise tax on fishing tackle boxes.

## Subtitle D—Other Provisions

## 8

- Sec. 1331. Increase in volume cap on private activity bonds.
- Sec. 1332. Tax treatment of Alaska Native Settlement Trusts.
- Sec. 1333. Increase in threshold for Joint Committee reports on refunds and credits.

## Subtitle E—Tax Court Provisions

- Sec. 1341. Tax Court filing fee in all cases commenced by filing petition.
- Sec. 1342. Expanded use of Tax Court practice fee.
- Sec. 1343. Confirmation of authority of Tax Court to apply doctrine of equitable recoupment.

## TITLE XIV—EXTENSIONS OF EXPIRING PROVISIONS

- Sec. 1401. Research credit.
- Sec. 1402. Subpart F exemption for active financing income.
- Sec. 1403. Taxable income limit on percentage depletion for marginal production.
- Sec. 1404. Work Opportunity Credit and Welfare-to-Work Credit.

## TITLE XV—REVENUE OFFSETS

- Sec. 1501. Returns relating to cancellations of indebtedness by organizations lending money.
- Sec. 1502. Extension of Internal Revenue Service user fees.
- Sec. 1503. Limitations on welfare benefit funds of 10 or more employer plans.
- Sec. 1504. Increase in elective withholding rate for nonperiodic distributions from deferred compensation plans.
- Sec. 1505. Controlled entities ineligible for REIT status.
- Sec. 1506. Treatment of gain from constructive ownership transactions.
- Sec. 1507. Transfer of excess defined benefit plan assets for retiree health benefits.
- Sec. 1508. Modification of installment method and repeal of installment method for accrual method taxpayers.

## TITLE XVI—TECHNICAL CORRECTIONS

- Sec. 1601. Amendments related to Tax and Trade Relief Extension Act of 1998.
- Sec. 1602. Amendments related to Internal Revenue Service Restructuring and Reform Act of 1998.
- Sec. 1603. Amendments related to Taxpayer Relief Act of 1997.
- Sec. 1604. Other technical corrections.
- Sec. 1605. Clerical changes.



1       **TITLE I—BROAD-BASED TAX**  
2               **RELIEF**  
3       **Subtitle A—10-Percent Reduction**  
4       **in Individual Income Tax Rates**

5       **SEC. 101. 10-PERCENT REDUCTION IN INDIVIDUAL INCOME**  
6               **TAX RATES.**

7       (a) REGULAR INCOME TAX RATES.—

8               (1) IN GENERAL.—Subsection (f) of section 1 is  
9       amended by adding at the end the following new  
10      paragraph:

11              “(8) RATE REDUCTIONS.—In prescribing the  
12      tables under paragraph (1) which apply with respect  
13      to taxable years beginning in a calendar year after  
14      2000, each rate in such tables (without regard to  
15      this paragraph) shall be reduced by the number of  
16      percentage points (rounded to the next lowest tenth)  
17      equal to the applicable percentage (determined in ac-  
18      cordance with the following table) of such rate:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2001 through 2004 .....	2.5
2005 through 2007 .....	5.0
2008 .....	7.5
2009 and thereafter .....	10.0.”

19       (2) TECHNICAL AMENDMENTS.—

20              (A) Subparagraph (B) of section 1(f)(2) is  
21      amended by inserting “except as provided in  
22      paragraph (8),” before “by not changing”.

1 (B) Subparagraph (C) of section 1(f)(2) is  
2 amended by inserting “and the reductions  
3 under paragraph (8) in the rates of tax” before  
4 the period.

5 (C) The heading for subsection (f) of sec-  
6 tion 1 is amended by inserting “RATE REDUC-  
7 TIONS;” before “ADJUSTMENTS”.

8 (D) Section 1(g)(7)(B)(ii)(II) is amended  
9 by striking “15 percent” and inserting “the  
10 percentage applicable to the lowest income  
11 bracket in subsection (c)”.

12 (E) Subparagraphs (A)(ii)(I) and (B)(i) of  
13 section 1(h)(1) are each amended by striking  
14 “28 percent” and inserting “25.2 percent”.

15 (F) Section 531 is amended by striking  
16 “39.6 percent of the accumulated taxable in-  
17 come” and inserting “the product of the accu-  
18 mulated taxable income and the percentage ap-  
19 plicable to the highest income bracket in section  
20 1(c)”.

21 (G) Section 541 is amended by striking  
22 “39.6 percent of the undistributed personal  
23 holding company income” and inserting “the  
24 product of the undistributed personal holding

1 company income and the percentage applicable  
2 to the highest income bracket in section 1(c)”.

3 (H) Section 3402(p)(1)(B) is amended by  
4 striking “specified is 7, 15, 28, or 31 percent”  
5 and all that follows and inserting “specified  
6 is—

7 “(i) 7 percent,

8 “(ii) a percentage applicable to 1 of  
9 the 3 lowest income brackets in section  
10 1(c), or

11 “(iii) such other percentage as is per-  
12 mitted under regulations prescribed by the  
13 Secretary.”

14 (I) Section 3402(p)(2) is amended by  
15 striking “15 percent of such payment” and in-  
16 serting “the product of such payment and the  
17 percentage applicable to the lowest income  
18 bracket in section 1(c)”.

19 (J) Section 3402(q)(1) is amended by  
20 striking “28 percent of such payment” and in-  
21 serting “the product of such payment and the  
22 percentage applicable to the next to the lowest  
23 income bracket in section 1(c)”.

24 (K) Section 3402(r)(3) is amended by  
25 striking “31 percent” and inserting “the rate

1 applicable to the third income bracket in such  
2 section”.

3 (L) Section 3406(a)(1) is amended by  
4 striking “31 percent of such payment” and in-  
5 serting “the product of such payment and the  
6 percentage applicable to the third income brack-  
7 et in section 1(c)”.

8 (b) MINIMUM TAX RATES.—Subparagraph (A) of  
9 section 55(b)(1) is amended by adding at the end the fol-  
10 lowing new clause:

11 “(iv) RATE REDUCTION.—In the case  
12 of taxable years beginning after 2000, each  
13 rate in clause (i) (without regard to this  
14 clause) shall be reduced by the number of  
15 percentage points (rounded to the next  
16 lowest tenth) equal to the applicable per-  
17 centage (determined in accordance with  
18 section 1(f)(8)) of such rate.”.

19 (c) EFFECTIVE DATE.—The amendments made by  
20 this section shall apply to taxable years beginning after  
21 December 31, 2000.

1     **Subtitle B—Marriage Penalty Tax**  
2                     **Relief**

3     **SEC. 111. ELIMINATION OF MARRIAGE PENALTY IN STAND-**  
4                     **ARD DEDUCTION.**

5             (a) IN GENERAL.—Paragraph (2) of section 63(c)  
6     (relating to standard deduction) is amended—

7                 (1) by striking “\$5,000” in subparagraph (A)  
8             and inserting “twice the dollar amount in effect  
9             under subparagraph (C) for the taxable year”,

10                (2) by adding “or” at the end of subparagraph  
11             (B),

12                (3) by striking “in the case of” and all that fol-  
13             lows in subparagraph (C) and inserting “in any  
14             other case.”, and

15                (4) by striking subparagraph (D).

16             (b) PHASE-IN.—Subsection (c) of section 63 is  
17     amended by adding at the end the following new para-  
18     graph:

19                “(7) PHASE-IN OF INCREASE IN BASIC STAND-  
20     ARD DEDUCTION.—In the case of taxable years be-  
21     ginning before January 1, 2003—

22                     “(A) paragraph (2)(A) shall be applied by  
23             substituting for ‘twice’—

24                         “(i) ‘1.778 times’ in the case of tax-  
25             able years beginning during 2001, and

1 “(ii) ‘1.889 times’ in the case of tax-  
2 able years beginning during 2002, and

3 “(B) the basic standard deduction for a  
4 married individual filing a separate return shall  
5 be one-half of the amount applicable under  
6 paragraph (2)(A).

7 If any amount determined under subparagraph (A)  
8 is not a multiple of \$50, such amount shall be  
9 rounded to the next lowest multiple of \$50.”.

10 (c) TECHNICAL AMENDMENTS.—

11 (1) Subparagraph (B) of section 1(f)(6) is  
12 amended by striking “(other than with” and all that  
13 follows through “shall be applied” and inserting  
14 “(other than with respect to sections 63(c)(4) and  
15 151(d)(4)(A)) shall be applied”.

16 (2) Paragraph (4) of section 63(c) is amended  
17 by adding at the end the following flush sentence:  
18 “The preceding sentence shall not apply to the  
19 amount referred to in paragraph (2)(A).”.

20 (d) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2000.

1   **SEC. 112. ELIMINATION OF MARRIAGE PENALTY IN DEDUC-**  
2                           **TION FOR INTEREST ON EDUCATION LOANS.**

3           (a) IN GENERAL.—Subparagraph (B) of section  
4 221(b)(2) (relating to limitation based on modified ad-  
5 justed gross income) is amended—

6                   (1) by striking “\$60,000” in clause (i)(II) and  
7                   inserting “twice such amount”, and

8                   (2) by inserting “(\$30,000 in the case of a joint  
9                   return)” after “\$15,000” in clause (ii).

10          (b) CONFORMING AMENDMENT.—Paragraph (1) of  
11 section 221(g) is amended by striking “and \$60,000  
12 amounts in subsection (b)(2) shall each” and inserting  
13 “amount in subsection (b)(2) shall”.

14          (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 1999.

17   **SEC. 113. ROLLOVER FROM REGULAR IRA TO ROTH IRA.**

18          (a) IN GENERAL.—Clause (i) of section  
19 408A(c)(3)(B) is amended by inserting “(\$160,000 in the  
20 case of a joint return)” after “\$100,000”.

21          (b) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 1999.

1 **Subtitle C—Repeal of Alternative**  
 2 **Minimum Tax on Individuals**

3 **SEC. 121. REPEAL OF ALTERNATIVE MINIMUM TAX ON INDIVIDUALS.**  
 4

5 (a) IN GENERAL.—Subsection (a) of section 55 is  
 6 amended by adding at the end the following new flush sen-  
 7 tence:

8 “For purposes of this title, the tentative minimum tax on  
 9 any taxpayer other than a corporation for any taxable year  
 10 beginning after December 31, 2007, shall be zero.”

11 (b) REDUCTION OF TAX ON INDIVIDUALS PRIOR TO  
 12 REPEAL.—Section 55 is amended by adding at the end  
 13 the following new subsection:

14 “(f) PHASEOUT OF TAX ON INDIVIDUALS.—

15 “(1) IN GENERAL.—The tax imposed by this  
 16 section on a taxpayer other than a corporation for  
 17 any taxable year beginning after December 31,  
 18 2002, and before January 1, 2008, shall be the ap-  
 19 plicable percentage of the tax which would be im-  
 20 posed but for this subsection.

21 “(2) APPLICABLE PERCENTAGE.—For purposes  
 22 of paragraph (1), the applicable percentage shall be  
 23 determined in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2003 .....	80
2004 .....	70



2005 .....	60
2006 or 2007 .....	50.”

1       (c) NONREFUNDABLE PERSONAL CREDITS FULLY  
2 ALLOWED AGAINST REGULAR TAX LIABILITY.—

3           (1) IN GENERAL.—Subsection (a) of section 26  
4       (relating to limitation based on amount of tax) is  
5       amended to read as follows:

6       “(a) LIMITATION BASED ON AMOUNT OF TAX.—The  
7       aggregate amount of credits allowed by this subpart for  
8       the taxable year shall not exceed the taxpayer’s regular  
9       tax liability for the taxable year.”

10          (2) CHILD CREDIT.—Subsection (d) of section  
11       24 is amended by striking paragraph (2) and by re-  
12       designating paragraph (3) as paragraph (2).

13       (d) LIMITATION ON USE OF CREDIT FOR PRIOR  
14 YEAR MINIMUM TAX LIABILITY.—Subsection (c) of sec-  
15 tion 53 is amended to read as follows:

16       “(c) LIMITATION.—

17           “(1) IN GENERAL.—Except as otherwise pro-  
18       vided in this subsection, the credit allowable under  
19       subsection (a) for any taxable year shall not exceed  
20       the excess (if any) of—

21           “(A) the regular tax liability of the tax-  
22       payer for such taxable year reduced by the sum  
23       of the credits allowable under subparts A, B, D,  
24       E, and F of this part, over

1 “(B) the tentative minimum tax for the  
2 taxable year.

3 “(2) TAXABLE YEARS BEGINNING AFTER  
4 2007.—In the case of any taxable year beginning  
5 after 2007, the credit allowable under subsection (a)  
6 to a taxpayer other than a corporation for any tax-  
7 able year shall not exceed 90 percent of the excess  
8 (if any) of—

9 “(A) regular tax liability of the taxpayer  
10 for such taxable year, over

11 “(B) the sum of the credits allowable  
12 under subparts A, B, D, E, and F of this  
13 part.”

14 (e) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to taxable years beginning after  
16 December 31, 1998.

17 **TITLE II—RELIEF FROM TAX-**  
18 **ATION ON SAVINGS AND IN-**  
19 **VESTMENTS**

20 **SEC. 201. EXEMPTION OF CERTAIN INTEREST AND DIVI-**  
21 **DEND INCOME FROM TAX.**

22 (a) IN GENERAL.—Part III of subchapter B of chap-  
23 ter 1 (relating to amounts specifically excluded from gross  
24 income) is amended by inserting after section 115 the fol-  
25 lowing new section:

1   **“SEC. 116. PARTIAL EXCLUSION OF DIVIDENDS AND INTER-**  
2                   **EST RECEIVED BY INDIVIDUALS.**

3           “(a) EXCLUSION FROM GROSS INCOME.—Gross in-  
4 come does not include dividends and interest otherwise in-  
5 cludible in gross income which are received during the tax-  
6 able year by an individual.

7           “(b) LIMITATIONS.—

8                   “(1) MAXIMUM AMOUNT.—The aggregate  
9 amount excluded under subsection (a) for any tax-  
10 able year shall not exceed—

11                           “(A) in the case of any taxable year begin-  
12 ning in 2001 or 2002, \$100 (\$200 in the case  
13 of a joint return), and

14                           “(B) in the case of any taxable year begin-  
15 ning after 2002, \$200 (\$400 in the case of a  
16 joint return).

17           “(2) CERTAIN DIVIDENDS EXCLUDED.—Sub-  
18 section (a) shall not apply to any dividend from a  
19 corporation which for the taxable year of the cor-  
20 poration in which the distribution is made is a cor-  
21 poration exempt from tax under section 521 (relat-  
22 ing to farmers’ cooperative associations).

23           “(c) SPECIAL RULES.—For purposes of this  
24 section—

25                   “(1) EXCLUSION NOT TO APPLY TO CAPITAL  
26 GAIN DIVIDENDS FROM REGULATED INVESTMENT

1 COMPANIES AND REAL ESTATE INVESTMENT  
2 TRUSTS.—

**“For treatment of capital gain dividends, see sections 854(a) and 857(c).**

3 “(2) CERTAIN NONRESIDENT ALIENS INELI-  
4 GIBLE FOR EXCLUSION.—In the case of a non-  
5 resident alien individual, subsection (a) shall apply  
6 only in determining the taxes imposed for the tax-  
7 able year pursuant to sections 871(b)(1) and 877(b).

8 “(3) DIVIDENDS FROM EMPLOYEE STOCK OWN-  
9 ERSHIP PLANS.—Subsection (a) shall not apply to  
10 any dividend described in section 404(k).”.

11 (b) CONFORMING AMENDMENTS.—

12 (1) Subparagraph (C) of section 32(c)(5) is  
13 amended by striking “or” at the end of clause (i),  
14 by striking the period at the end of clause (ii) and  
15 inserting “; or”, and by inserting after clause (ii)  
16 the following new clause:

17 “(iii) interest and dividends received  
18 during the taxable year which are excluded  
19 from gross income under section 116.”.

20 (2) Subparagraph (A) of section 32(i)(2) is  
21 amended by inserting “(determined without regard  
22 to section 116)” before the comma.

23 (3) Subparagraph (B) of section 86(b)(2) is  
24 amended to read as follows:

1 “(B) increased by the sum of—

2 “(i) the amount of interest received or  
3 accrued by the taxpayer during the taxable  
4 year which is exempt from tax, and

5 “(ii) the amount of interest and divi-  
6 dends received during the taxable year  
7 which are excluded from gross income  
8 under section 116.”.

9 (4) Subsection (d) of section 135 is amended by  
10 redesignating paragraph (4) as paragraph (5) and  
11 by inserting after paragraph (3) the following new  
12 paragraph:

13 “(4) COORDINATION WITH SECTION 116.—This  
14 section shall be applied before section 116.”.

15 (5) Paragraph (2) of section 265(a) is amended  
16 by inserting before the period “, or to purchase or  
17 carry obligations or shares, or to make deposits, to  
18 the extent the interest thereon is excludable from  
19 gross income under section 116”.

20 (6) Subsection (c) of section 584 is amended by  
21 adding at the end the following new flush sentence:  
22 “The proportionate share of each participant in the  
23 amount of dividends or interest received by the common  
24 trust fund and to which section 116 applies shall be con-

1 sidered for purposes of such section as having been re-  
2 ceived by such participant.”.

3 (7) Subsection (a) of section 643 is amended by  
4 redesignating paragraph (7) as paragraph (8) and  
5 by inserting after paragraph (6) the following new  
6 paragraph:

7 “(7) DIVIDENDS OR INTEREST.—There shall be  
8 included the amount of any dividends or interest ex-  
9 cluded from gross income pursuant to section 116.”.

10 (8) Section 854(a) is amended by inserting  
11 “section 116 (relating to partial exclusion of divi-  
12 dends and interest received by individuals) and”  
13 after “For purposes of”.

14 (9) Section 857(c) is amended to read as fol-  
15 lows:

16 “(c) RESTRICTIONS APPLICABLE TO DIVIDENDS RE-  
17 CEIVED FROM REAL ESTATE INVESTMENT TRUSTS.—

18 “(1) TREATMENT FOR SECTION 116.—For pur-  
19 poses of section 116 (relating to partial exclusion of  
20 dividends and interest received by individuals), a  
21 capital gain dividend (as defined in subsection  
22 (b)(3)(C)) received from a real estate investment  
23 trust which meets the requirements of this part shall  
24 not be considered as a dividend.

1           “(2) TREATMENT FOR SECTION 243.—For pur-  
2           poses of section 243 (relating to deductions for divi-  
3           dends received by corporations), a dividend received  
4           from a real estate investment trust which meets the  
5           requirements of this part shall not be considered as  
6           a dividend.”.

7           (10) The table of sections for part III of sub-  
8           chapter B of chapter 1 is amended by inserting after  
9           the item relating to section 115 the following new  
10          item:

                    “Sec. 116. Partial exclusion of dividends and interest received by  
                    individuals.”.

11          (c) EFFECTIVE DATE.—The amendments made by  
12          this section shall apply to taxable years beginning after  
13          December 31, 2000.

14      **SEC. 202. REDUCTION IN INDIVIDUAL CAPITAL GAIN TAX**  
15                      **RATES.**

16          (a) IN GENERAL.—

17              (1) Sections 1(h)(1)(B) and 55(b)(3)(B) are  
18              each amended by striking “10 percent” and insert-  
19              ing “7.5 percent”.

20              (2) The following sections are each amended by  
21              striking “20 percent” and inserting “15 percent”:

22                      (A) Section 1(h)(1)(C).

23                      (B) Section 55(b)(3)(C).

24                      (C) Section 1445(e)(1).

1 (D) The second sentence of section  
2 7518(g)(6)(A).

3 (E) The second sentence of section  
4 607(h)(6)(A) of the Merchant Marine Act,  
5 1936.

6 (3) Sections 1(h)(1)(D) and 55(b)(3)(D) are  
7 each amended by striking “25 percent” and insert-  
8 ing “20 percent”.

9 (b) CONFORMING AMENDMENTS.—

10 (1) Section 311 of the Taxpayer Relief Act of  
11 1997 is amended by striking subsection (e).

12 (2) Section 1(h) is amended—

13 (A) by striking paragraphs (2), (9), and  
14 (13),

15 (B) by redesignating paragraphs (3)  
16 through (8) as paragraphs (2) through (7), re-  
17 spectively, and

18 (C) by redesignating paragraphs (10),  
19 (11), and (12) as paragraphs (8), (9), and (10),  
20 respectively.

21 (3) Paragraph (3) of section 55(b) is amended  
22 by striking “In the case of taxable years beginning  
23 after December 31, 2000, rules similar to the rules  
24 of section 1(h)(2) shall apply for purposes of sub-  
25 paragraphs (B) and (C).”.



1           (4) Paragraph (7) of section 57(a) is  
2       amended—

3           (A) by striking “42 percent” and inserting  
4       “6 percent”, and

5           (B) by striking the last sentence.

6       (c) TRANSITIONAL RULES FOR TAXABLE YEARS  
7       WHICH INCLUDE JULY 1, 1999.—For purposes of applying  
8       section 1(h) of the Internal Revenue Code of 1986 in the  
9       case of a taxable year which includes July 1, 1999—

10           (1) The amount of tax determined under sub-  
11       paragraph (B) of section 1(h)(1) of such Code shall  
12       be the sum of—

13           (A) 7.5 percent of the lesser of—

14               (i) the net capital gain taking into ac-  
15       count only gain or loss properly taken into  
16       account for the portion of the taxable year  
17       on or after such date (determined without  
18       regard to collectibles gain or loss, gain de-  
19       scribed in section (1)(h)(6)(A)(i) of such  
20       Code, and section 1202 gain), or

21               (ii) the amount on which a tax is de-  
22       termined under such subparagraph (with-  
23       out regard to this subsection), plus

24           (B) 10 percent of the excess (if any) of—

1 (i) the amount on which a tax is de-  
2 termined under such subparagraph (with-  
3 out regard to this subsection), over

4 (ii) the amount on which a tax is de-  
5 termined under subparagraph (A).

6 (2) The amount of tax determined under sub-  
7 paragraph (C) of section (1)(h)(1) of such Code  
8 shall be the sum of—

9 (A) 15 percent of the lesser of—

10 (i) the excess (if any) of the amount  
11 of net capital gain determined under sub-  
12 paragraph (A)(i) of paragraph (1) of this  
13 subsection over the amount on which a tax  
14 is determined under subparagraph (A) of  
15 paragraph (1) of this subsection, or

16 (ii) the amount on which a tax is de-  
17 termined under such subparagraph (C)  
18 (without regard to this subsection), plus

19 (B) 20 percent of the excess (if any) of—

20 (i) the amount on which a tax is de-  
21 termined under such subparagraph (C)  
22 (without regard to this subsection), over

23 (ii) the amount on which a tax is de-  
24 termined under subparagraph (A) of this  
25 paragraph.

1           (3) The amount of tax determined under sub-  
2       paragraph (D) of section 1(h)(1) of such Code  
3       shall be the sum of—

4           (A) 20 percent of the lesser of—

5               (i) the amount which would be deter-  
6               mined under section 1(h)(6)(A)(i) of such  
7               Code taking into account only gain prop-  
8               erly taken into account for the portion of  
9               the taxable year on or after such date, or

10           (ii) the amount on which a tax is de-  
11           termined under such subparagraph (D)  
12           (without regard to this subsection), plus

13           (B) 25 percent of the excess (if any) of—

14               (i) the amount on which a tax is de-  
15               termined under such subparagraph (D)  
16               (without regard to this subsection), over

17               (ii) the amount on which a tax is de-  
18               termined under subparagraph (A) of this  
19               paragraph.

20           (4) For purposes of applying section 55(b)(3)  
21       of such Code, rules similar to the rules of para-  
22       graphs (1), (2), and (3) of this subsection shall  
23       apply.

24           (5) In applying this subsection with respect to  
25       any pass-thru entity, the determination of when

1 gains and loss are properly taken into account shall  
2 be made at the entity level.

3 (6) Terms used in this subsection which are  
4 also used in section 1(h) of such Code shall have the  
5 respective meanings that such terms have in such  
6 section.

7 (d) EFFECTIVE DATES.—

8 (1) IN GENERAL.—Except as otherwise pro-  
9 vided by this subsection, the amendments made by  
10 this section shall apply to taxable years ending after  
11 June 30, 1999.

12 (2) WITHHOLDING.—The amendment made by  
13 subsection (a)(2)(C) shall apply to amounts paid  
14 after the date of the enactment of this Act.

15 (3) SMALL BUSINESS STOCK.—The amend-  
16 ments made by subsection (b)(4) shall apply to dis-  
17 positions on or after July 1, 1999.

18 **SEC. 203. CAPITAL GAINS TAX RATES APPLIED TO CAPITAL**  
19 **GAINS OF DESIGNATED SETTLEMENT FUNDS.**

20 (a) IN GENERAL.—Paragraph (1) of section 468B(b)  
21 (relating to taxation of designated settlement funds) is  
22 amended by inserting “(subject to section 1(h))” after  
23 “maximum rate”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1999.

4 **SEC. 204. SPECIAL RULE FOR MEMBERS OF UNIFORMED**  
5 **SERVICES AND FOREIGN SERVICE, AND**  
6 **OTHER EMPLOYEES, IN DETERMINING EX-**  
7 **CLUSION OF GAIN FROM SALE OF PRINCIPAL**  
8 **RESIDENCE.**

9 (a) IN GENERAL.—Subsection (d) of section 121 (re-  
10 lating to exclusion of gain from sale of principal residence)  
11 is amended by adding at the end the following new para-  
12 graphs:

13 “(9) MEMBERS OF UNIFORMED SERVICES AND  
14 FOREIGN SERVICE.—

15 “(A) IN GENERAL.—The running of the 5-  
16 year period described in subsection (a) shall be  
17 suspended with respect to an individual during  
18 any time that such individual or such individ-  
19 ual’s spouse is serving on qualified official ex-  
20 tended duty as a member of the uniformed  
21 services or of the Foreign Service.

22 “(B) QUALIFIED OFFICIAL EXTENDED  
23 DUTY.—For purposes of this paragraph—

24 “(i) IN GENERAL.—The term ‘quali-  
25 fied official extended duty’ means any pe-

1           riod of extended duty as a member of the  
2           uniformed services or a member of the  
3           Foreign Service during which the member  
4           serves at a duty station which is at least  
5           50 miles from such property or is under  
6           Government orders to reside in Govern-  
7           ment quarters.

8           “(ii) UNIFORMED SERVICES.—The  
9           term ‘uniformed services’ has the meaning  
10          given such term by section 101(a)(5) of  
11          title 10, United States Code, as in effect  
12          on the date of the enactment of the Finan-  
13          cial Freedom Act of 1999.

14          “(iii) FOREIGN SERVICE OF THE  
15          UNITED STATES.—The term ‘member of  
16          the Foreign Service’ has the meaning given  
17          the term ‘member of the Service’ by para-  
18          graph (1), (2), (3), (4), or (5) of section  
19          103 of the Foreign Service Act of 1980, as  
20          in effect on the date of the enactment of  
21          the Financial Freedom Act of 1999.

22          “(iv) EXTENDED DUTY.—The term  
23          ‘extended duty’ means any period of active  
24          duty pursuant to a call or order to such

1 duty for a period in excess of 90 days or  
2 for an indefinite period.

3 “(10) OTHER EMPLOYEES.—

4 “(A) IN GENERAL.—The running of the 5-  
5 year period described in subsection (a) shall be  
6 suspended with respect to an individual during  
7 any time that such individual or such individ-  
8 ual’s spouse is serving as an employee for a pe-  
9 riod in excess of 90 days in an assignment by  
10 the such employee’s employer outside the  
11 United States.

12 “(B) LIMITATIONS AND SPECIAL RULES.—

13 “(i) MAXIMUM PERIOD OF SUSPEN-  
14 SION.—The suspension under subpara-  
15 graph (A) with respect to a principal resi-  
16 dence shall not exceed (in the aggregate) 5  
17 years.

18 “(ii) MEMBERS OF UNIFORMED SERV-  
19 ICES AND FOREIGN SERVICE.—Subpara-  
20 graph (A) shall not apply to an individual  
21 to whom paragraph (9) applies.

22 “(iii) SELF-EMPLOYED INDIVIDUAL  
23 NOT CONSIDERED AN EMPLOYEE.—For  
24 purposes of this paragraph, the term ‘em-  
25 ployee’ does not include an individual who

1           is an employee within the meaning of sec-  
2           tion 401(c)(1) (relating to self-employed  
3           individuals).”.

4       (b) EFFECTIVE DATE.—The amendment made by  
5 this section shall apply to sales and exchanges after the  
6 date of the enactment of this Act.

7 **SEC. 205. TREATMENT OF CERTAIN DEALER DERIVATIVE**  
8 **FINANCIAL INSTRUMENTS, HEDGING TRANS-**  
9 **ACTIONS, AND SUPPLIES AS ORDINARY AS-**  
10 **SETS.**

11       (a) IN GENERAL.—Section 1221 (defining capital as-  
12 sets) is amended—

13           (1) by striking “For purposes” and inserting  
14 the following:

15       “(a) IN GENERAL.—For purposes”,

16           (2) by striking the period at the end of para-  
17 graph (5) and inserting a semicolon, and

18           (3) by adding at the end the following:

19       “(6) any commodities derivative financial in-  
20 strument held by a commodities derivatives dealer,  
21 unless—

22           “(A) it is established to the satisfaction of  
23 the Secretary that such instrument has no con-  
24 nection to the activities of such dealer as a  
25 dealer, and



1           “(B) such instrument is clearly identified  
2           in such dealer’s records as being described in  
3           subparagraph (A) before the close of the day on  
4           which it was acquired, originated, or entered  
5           into (or such other time as the Secretary may  
6           by regulations prescribe);

7           “(7) any hedging transaction which is clearly  
8           identified as such before the close of the day on  
9           which it was acquired, originated, or entered into (or  
10          such other time as the Secretary may by regulations  
11          prescribe); or

12          “(8) supplies of a type regularly used or con-  
13          sumed by the taxpayer in the ordinary course of a  
14          trade or business of the taxpayer.

15          “(b) DEFINITIONS AND SPECIAL RULES.—

16          “(1) COMMODITIES DERIVATIVE FINANCIAL IN-  
17          STRUMENTS.—For purposes of subsection (a)(6)—

18                 “(A) COMMODITIES DERIVATIVES DEAL-  
19                 ER.—The term ‘commodities derivatives dealer’  
20                 means a person which regularly offers to enter  
21                 into, assume, offset, assign, or terminate posi-  
22                 tions in commodities derivative financial instru-  
23                 ments with customers in the ordinary course of  
24                 a trade or business.

1                   “(B) COMMODITIES DERIVATIVE FINAN-  
2                   CIAL INSTRUMENT.—

3                   “(i) IN GENERAL.—The term ‘com-  
4                   modities derivative financial instrument’  
5                   means any contract or financial instrument  
6                   with respect to commodities (other than a  
7                   share of stock in a corporation, a beneficial  
8                   interest in a partnership or trust, a note,  
9                   bond, debenture, or other evidence of in-  
10                  debtedness, or a section 1256 contract (as  
11                  defined in section 1256(b)) the value or  
12                  settlement price of which is calculated by  
13                  or determined by reference to a specified  
14                  index.

15                  “(ii) SPECIFIED INDEX.—The term  
16                  ‘specified index’ means any one or more or  
17                  any combination of—

18                         “(I) a fixed rate, price, or  
19                         amount, or

20                         “(II) a variable rate, price, or  
21                         amount,

22                         which is based on any current, objectively  
23                         determinable financial or economic infor-  
24                         mation which is not within the control of  
25                         any of the parties to the contract or in-

1                   strument and is not unique to any of the  
2                   parties' circumstances.

3                   “(2) HEDGING TRANSACTION.—

4                   “(A) IN GENERAL.—For purposes of this  
5                   section, the term ‘hedging transaction’ means  
6                   any transaction entered into by the taxpayer in  
7                   the normal course of the taxpayer’s trade or  
8                   business primarily—

9                   “(i) to manage risk of price changes  
10                  or currency fluctuations with respect to or-  
11                  dinary property which is held or to be held  
12                  by the taxpayer, or

13                  “(ii) to manage risk of interest rate or  
14                  price changes or currency fluctuations with  
15                  respect to borrowings made or to be made,  
16                  or ordinary obligations incurred or to be  
17                  incurred, by the taxpayer.

18                  “(B) TREATMENT OF NONIDENTIFICATION  
19                  OR IMPROPER IDENTIFICATION OF HEDGING  
20                  TRANSACTIONS.—Notwithstanding subsection  
21                  (a)(7), the Secretary shall prescribe regulations  
22                  to properly characterize of any income, gain, ex-  
23                  pense, or loss arising from a transaction—

1 “(i) which is a hedging transaction  
2 but which was not identified as such in ac-  
3 cordance with subsection (a)(7), or

4 “(ii) which was so identified but is not  
5 a hedging transaction.

6 “(3) REGULATIONS.—The Secretary shall pre-  
7 scribe such regulations as are appropriate to carry  
8 out the purposes of paragraph (6) and (7) of sub-  
9 section (a) in the case of transactions involving re-  
10 lated parties.”.

11 (b) MANAGEMENT OF RISK.—

12 (1) Section 475(c)(3) is amended by striking  
13 “reduces” and inserting “manages”.

14 (2) Section 871(h)(4)(C)(iv) is amended by  
15 striking “to reduce” and inserting “to manage”.

16 (3) Clauses (i) and (ii) of section 988(d)(2)(A)  
17 are each amended by striking “to reduce” and in-  
18 serting “to manage”.

19 (4) Paragraph (2) of section 1256(e) is amend-  
20 ed to read as follows:

21 “(2) DEFINITION OF HEDGING TRANSACTION.—

22 For purposes of this subsection, the term ‘hedging  
23 transaction’ means any hedging transaction (as de-  
24 fined in section 1221(b)(2)(A)) if, before the close of  
25 the day on which such transaction was entered into

1 (or such earlier time as the Secretary may prescribe  
2 by regulations), the taxpayer clearly identifies such  
3 transaction as being a hedging transaction.”

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to any instrument held, acquired,  
6 or entered into, any transaction entered into, and supplies  
7 held or acquired on or after the date of enactment of this  
8 Act.

9 **SEC. 206. WORTHLESS SECURITIES OF FINANCIAL INSTITU-**  
10 **TIONS.**

11 (a) IN GENERAL.—The first sentence following sec-  
12 tion 165(g)(3)(B) (relating to securities of affiliated cor-  
13 poration) is amended to read as follows: “In computing  
14 gross receipts for purposes of the preceding sentence, (i)  
15 gross receipts from sales or exchanges of stocks and secu-  
16 rities shall be taken into account only to the extent of  
17 gains therefrom, and (ii) gross receipts from royalties,  
18 rents, dividends, interest, annuities, and gains from sales  
19 or exchanges of stocks and securities derived from (or di-  
20 rectly related to) the conduct of an active trade or business  
21 of an insurance company subject to tax under subchapter  
22 L or a qualified financial institution (as defined in sub-  
23 section (l)(3)) shall be treated as from such sources other  
24 than royalties, rents, dividends, interest, annuities, and  
25 gains.”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 subsection (a) shall apply to securities which become  
3 worthless in taxable years beginning after December 31,  
4 1999.

5 **TITLE III—INCENTIVES FOR**  
6 **BUSINESS INVESTMENT AND**  
7 **JOB CREATION**

8 **SEC. 301. REDUCTION IN CORPORATE CAPITAL GAIN TAX**  
9 **RATE.**

10 (a) IN GENERAL.—Section 1201 is amended to read  
11 as follows:

12 **“SEC. 1201. ALTERNATIVE TAX FOR CORPORATIONS.**

13 “(a) GENERAL RULE.—If for any taxable year a cor-  
14 poration has a net capital gain, then, in lieu of the tax  
15 imposed by sections 11, 511, or 831(a) or (b), there is  
16 hereby imposed a tax (if such tax is less than the tax im-  
17 posed by such sections) which shall consist of the sum of—

18 “(1) a tax computed on the taxable income re-  
19 duced by the net capital gain, at the rates and in  
20 the manner as if this subsection had not been en-  
21 acted, plus

22 “(2) the applicable percentage of the net capital  
23 gain (or, if less, taxable income).

1       “(b) APPLICABLE PERCENTAGE.—For purposes of  
 2 subsection (a), the applicable percentage shall be deter-  
 3 mined in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2000 .....	34
2001 .....	33
2002 .....	32
2003 .....	31
2004 .....	30
2005 .....	29
2006 .....	28
2007 .....	27
2008 .....	26
2009 and thereafter .....	25.

4       “(c) CROSS REFERENCES.—For computation of the  
 5 alternative tax—

6               “(1) in the case of life insurance companies, see  
 7 section 801(a)(2),

8               “(2) in the case of regulated investment compa-  
 9 nies and their shareholders, see section 852(b)(3)(A)  
 10 and (D), and

11               “(3) in the case of real estate investment  
 12 trusts, see section 857(b)(3)(A).”

13       (b) TECHNICAL AMENDMENTS.—

14               (1) Paragraphs (1) and (2) of section 1445(e)  
 15 are each amended by striking “35 percent” and in-  
 16 serting “the applicable percentage determined under  
 17 section 1201(b) for the calendar year in which the  
 18 payment is made”.

19               (2)(A) The second sentence of section  
 20 7518(g)(6)(A) is amended by striking “34 percent”

1 and inserting “the applicable percentage (within the  
2 meaning of section 1201(b))”.

3 (B) The second sentence of section  
4 607(h)(6)(A) of the Merchant Marine Act, 1936, is  
5 amended by striking “34 percent” and inserting  
6 “the applicable percentage (within the meaning of  
7 section 1201(b) of the Internal Revenue Code of  
8 1986)”.

9 (c) EFFECTIVE DATES.—

10 (1) IN GENERAL.—Except as provided in para-  
11 graph (2), the amendments made by this section  
12 shall apply to taxable years beginning after Decem-  
13 ber 31, 1999.

14 (2) WITHHOLDING.—The amendment made by  
15 subsection (b)(1) shall apply to amounts paid after  
16 December 31, 1999.

17 **SEC. 302. REPEAL OF ALTERNATIVE MINIMUM TAX ON COR-**  
18 **PORATIONS.**

19 (a) IN GENERAL.—The last sentence of section 55(a),  
20 as amended by section 121, is amended by striking “on  
21 any taxpayer other than a corporation”.

22 (b) REPEAL OF 90 PERCENT LIMITATION ON FOR-  
23 EIGN TAX CREDIT.—

24 (1) IN GENERAL.—Section 59(a) (relating to al-  
25 ternative minimum tax foreign tax credit) is amend-



1 ed by striking paragraph (2) and by redesignating  
 2 paragraphs (3) and (4) as paragraphs (2) and (3),  
 3 respectively.

4 (2) CONFORMING AMENDMENT.—Section  
 5 53(d)(1)(B)(i)(II) is amended by striking “and if  
 6 section 59(a)(2) did not apply”.

7 (c) LIMITATION ON USE OF CREDIT FOR PRIOR  
 8 YEAR MINIMUM TAX LIABILITY.—

9 (1) IN GENERAL.—Subsection (c) of section 53,  
 10 as amended by section 121, is amended by redesign-  
 11 ating paragraph (2) as paragraph (3) and by in-  
 12 serting after paragraph (1) the following new para-  
 13 graph:

14 “(2) CORPORATIONS FOR TAXABLE YEARS BE-  
 15 GINNING AFTER 2002.—In the case of corporation for  
 16 any taxable year beginning after 2002 and before  
 17 2008, the limitation under paragraph (1) shall be in-  
 18 creased by the applicable percentage (determined in  
 19 accordance with the following table) of the tentative  
 20 minimum tax for the taxable year.

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2003 .....	20
2004 .....	30
2005 .....	40
2006 or 2007 .....	50.

21 In no event shall the limitation determined under  
 22 this paragraph be greater than the sum of the tax

1 imposed by section 55 and the regular tax reduced  
2 by the sum of the credits allowed under subparts A,  
3 B, D, E, and F of this part.”

4 (2) CONFORMING AMENDMENT.—Section 55(e)  
5 is amended by striking paragraph (5).

6 (d) EFFECTIVE DATE.—

7 (1) IN GENERAL.—Except as provided in para-  
8 graphs (2) and (3), the amendments made by this  
9 section shall apply to taxable years beginning after  
10 December 31, 2002.

11 (2) REPEAL OF 90 PERCENT LIMITATION ON  
12 FOREIGN TAX CREDIT.—The amendments made by  
13 subsection (b) shall apply to taxable years beginning  
14 after December 31, 2001.

15 (3) SUBSECTION (c)(2).—The amendment made  
16 by subsection (c)(2) shall apply to taxable years be-  
17 ginning after December 31, 2007.

## 18 **TITLE IV—EDUCATION SAVINGS** 19 **INCENTIVES**

### 20 **SEC. 401. MODIFICATIONS TO EDUCATION INDIVIDUAL RE-** 21 **TIREMENT ACCOUNTS.**

22 (a) MAXIMUM ANNUAL CONTRIBUTIONS.—

23 (1) IN GENERAL.—Section 530(b)(1)(A)(iii)  
24 (defining education individual retirement account) is

1 amended by striking “\$500” and inserting  
2 “\$2,000”.

3 (2) CONFORMING AMENDMENT.—Section  
4 4973(e)(1)(A) is amended by striking “\$500” and  
5 inserting “\$2,000”.

6 (b) TAX-FREE EXPENDITURES FOR ELEMENTARY  
7 AND SECONDARY SCHOOL EXPENSES.—

8 (1) IN GENERAL.—Section 530(b)(2) (defining  
9 qualified higher education expenses) is amended to  
10 read as follows:

11 “(2) QUALIFIED EDUCATION EXPENSES.—

12 “(A) IN GENERAL.—The term ‘qualified  
13 education expenses’ means—

14 “(i) qualified higher education ex-  
15 penses (as defined in section 529(e)(3)),  
16 and

17 “(ii) qualified elementary and sec-  
18 ondary education expenses (as defined in  
19 paragraph (4)).

20 “(B) QUALIFIED STATE TUITION PRO-  
21 GRAMS.—Such term shall include any contribu-  
22 tion to a qualified State tuition program (as de-  
23 fined in section 529(b)) on behalf of the des-  
24 ignated beneficiary (as defined in section  
25 529(e)(1)); but there shall be no increase in the

1 investment in the contract for purposes of ap-  
2 plying section 72 by reason of any portion of  
3 such contribution which is not includible in  
4 gross income by reason of subsection (d)(2).”

5 (2) QUALIFIED ELEMENTARY AND SECONDARY  
6 EDUCATION EXPENSES.—Section 530(b) (relating to  
7 definitions and special rules) is amended by adding  
8 at the end the following new paragraph:

9 “(4) QUALIFIED ELEMENTARY AND SECONDARY  
10 EDUCATION EXPENSES.—

11 “(A) IN GENERAL.—The term ‘qualified el-  
12 ementary and secondary education expenses’  
13 means—

14 “(i) expenses for tuition, fees, aca-  
15 demic tutoring, special needs services,  
16 books, supplies, computer equipment (in-  
17 cluding related software and services), and  
18 other equipment which are incurred in con-  
19 nection with the enrollment or attendance  
20 of the designated beneficiary of the trust  
21 as an elementary or secondary school stu-  
22 dent at a public, private, or religious  
23 school, and

24 “(ii) expenses for room and board,  
25 uniforms, transportation, and supple-

1           mentary items and services (including ex-  
2           tended day programs) which are required  
3           or provided by a public, private, or reli-  
4           gious school in connection with such enroll-  
5           ment or attendance.

6           “(B)           SPECIAL           RULE           FOR  
7           HOMESCHOOLING.—Such term shall include ex-  
8           penses described in subparagraph (A)(i) in con-  
9           nection with education provided by  
10          homeschooling if the requirements of any appli-  
11          cable State or local law are met with respect to  
12          such education.

13          “(C) SCHOOL.—The term ‘school’ means  
14          any school which provides elementary education  
15          or secondary education (kindergarten through  
16          grade 12), as determined under State law.”

17          (3) CONFORMING AMENDMENTS.—Section 530  
18          is amended—

19                (A) by striking “higher” each place it ap-  
20                pears in subsections (b)(1) and (d)(2), and

21                (B) by striking “HIGHER” in the heading  
22                for subsection (d)(2).

23          (c) WAIVER OF AGE LIMITATIONS FOR CHILDREN  
24          WITH SPECIAL NEEDS.—Section 530(b)(1) (defining edu-

1 cation individual retirement account) is amended by add-  
2 ing at the end the following flush sentence:

3 “The age limitations in subparagraphs (A)(ii) and  
4 (E) and paragraphs (5) and (6) of subsection (d)  
5 shall not apply to any designated beneficiary with  
6 special needs (as determined under regulations pre-  
7 scribed by the Secretary).”

8 (d) ENTITIES PERMITTED TO CONTRIBUTE TO AC-  
9 COUNTS.—Section 530(c)(1) (relating to reduction in per-  
10 mitted contributions based on adjusted gross income) is  
11 amended by striking “The maximum amount which a con-  
12 tributor” and inserting “In the case of a contributor who  
13 is an individual, the maximum amount the contributor”.

14 (e) TIME WHEN CONTRIBUTIONS DEEMED MADE.—

15 (1) IN GENERAL.—Section 530(b) (relating to  
16 definitions and special rules), as amended by sub-  
17 section (b)(2), is amended by adding at the end the  
18 following new paragraph:

19 “(5) TIME WHEN CONTRIBUTIONS DEEMED  
20 MADE.—An individual shall be deemed to have made  
21 a contribution to an education individual retirement  
22 account on the last day of the preceding taxable year  
23 if the contribution is made on account of such tax-  
24 able year and is made not later than the time pre-

1       scribed by law for filing the return for such taxable  
2       year (not including extensions thereof).”

3           (2) EXTENSION OF TIME TO RETURN EXCESS  
4       CONTRIBUTIONS.—Subparagraph (C) of section  
5       530(d)(4) (relating to additional tax for distribu-  
6       tions not used for educational expenses) is  
7       amended—

8           (A) by striking clause (i) and inserting the  
9       following new clause:

10           “(i) such distribution is made before  
11           the 1st day of the 6th month of the taxable  
12           year following the taxable year, and”, and

13           (B) by striking “DUE DATE OF RETURN”  
14       in the heading and inserting “CERTAIN DATE”.

15       (f) COORDINATION WITH HOPE AND LIFETIME  
16       LEARNING CREDITS AND QUALIFIED TUITION PRO-  
17       GRAMS.—

18           (1) IN GENERAL.—Section 530(d)(2)(C) is  
19       amended to read as follows:

20           “(C) COORDINATION WITH HOPE AND  
21       LIFETIME LEARNING CREDITS AND QUALIFIED  
22       TUITION PROGRAMS.—For purposes of subpara-  
23       graph (A)—

24           “(i) CREDIT COORDINATION.—The  
25       total amount of qualified higher education

1 expenses with respect to an individual for  
2 the taxable year shall be reduced—

3 “(I) as provided in section  
4 25A(g)(2), and

5 “(II) by the amount of such ex-  
6 penses which were taken into account  
7 in determining the credit allowed to  
8 the taxpayer or any other person  
9 under section 25A.

10 “(ii) COORDINATION WITH QUALIFIED  
11 TUITION PROGRAMS.—If, with respect to  
12 an individual for any taxable year—

13 “(I) the aggregate distributions  
14 during such year to which subpara-  
15 graph (A) and section 529(c)(3)(B)  
16 apply, exceed

17 “(II) the total amount of quali-  
18 fied education expenses (after the ap-  
19 plication of clause (i)) for such year,  
20 the taxpayer shall allocate such expenses  
21 among such distributions for purposes of  
22 determining the amount of the exclusion  
23 under subparagraph (A) and section  
24 529(c)(3)(B).”

25 (2) CONFORMING AMENDMENTS.—



1                   (A) Subsection (e) of section 25A is  
2                   amended to read as follows:

3           “(e) ELECTION NOT TO HAVE SECTION APPLY.—A  
4 taxpayer may elect not to have this section apply with re-  
5 spect to the qualified tuition and related expenses of an  
6 individual for any taxable year.”

7                   (B) Section 135(d)(2)(A) is amended by  
8 striking “allowable” and inserting “allowed”.

9                   (C) Section 530(d)(2)(D) is amended—  
10                   (i) by striking “or credit”, and  
11                   (ii) by striking “CREDIT OR” in the  
12 heading.

13                   (D) Section 4973(e)(1) is amended by add-  
14 ing “and” at the end of subparagraph (A), by  
15 striking subparagraph (B), and by redesign-  
16 ating subparagraph (C) as subparagraph (B).

17           (g) RENAMING EDUCATION INDIVIDUAL RETIRE-  
18 MENT ACCOUNTS AS EDUCATION SAVINGS ACCOUNTS.—

19                   (1) IN GENERAL.—

20                   (A) Section 530 (as amended by the pre-  
21 ceding provisions of this section) is amended by  
22 striking “education individual retirement ac-  
23 count” each place it appears and inserting  
24 “education savings account”.

1 (B) The heading for paragraph (1) of sec-  
2 tion 530(b) is amended by striking “EDU-  
3 CATION INDIVIDUAL RETIREMENT ACCOUNT”  
4 and inserting “EDUCATION SAVINGS ACCOUNT”.

5 (C) The heading for section 530 is amend-  
6 ed to read as follows:

7 **“SEC. 530. EDUCATION SAVINGS ACCOUNTS.”.**

8 (D) The item in the table of contents for  
9 part VII of subchapter F of chapter 1 relating  
10 to section 530 is amended to read as follows:

“Sec. 530. Education savings accounts.”.

11 (2) CONFORMING AMENDMENTS.—

12 (A) The following provisions are each  
13 amended by striking “education individual re-  
14 tirement” each place it appears and inserting  
15 “education savings”:

16 (i) Section 25A(e)(2).

17 (ii) Section 26(b)(2)(E).

18 (iii) Section 72(e)(9).

19 (iv) Section 135(c)(2)(C).

20 (v) Subsections (a) and (e) of section  
21 4973.

22 (vi) Subsections (c) and (e) of section  
23 4975.

24 (vii) Section 6693(a)(2)(D).

1 (B) The headings for each of the following  
2 provisions are amended by striking “EDU-  
3 CATION INDIVIDUAL RETIREMENT ACCOUNTS”  
4 each place it appears and inserting “EDU-  
5 CATION SAVINGS ACCOUNTS”.

6 (i) Section 72(e)(9).

7 (ii) Section 135(c)(2)(C).

8 (iii) Section 4973(e).

9 (iv) Section 4975(c)(5).

10 (h) EFFECTIVE DATES.—

11 (1) IN GENERAL.—Except as provided in para-  
12 graph (2), the amendments made by this section  
13 shall apply to taxable years beginning after Decem-  
14 ber 31, 2000.

15 (2) SUBSECTION (g).—The amendments made  
16 by subsection (g) shall take effect on the date of the  
17 enactment of this Act.

18 **SEC. 402. MODIFICATIONS TO QUALIFIED TUITION PRO-**  
19 **GRAMS.**

20 (a) ELIGIBLE EDUCATIONAL INSTITUTIONS PER-  
21 MITTED TO MAINTAIN QUALIFIED TUITION PROGRAMS.—

22 (1) IN GENERAL.—Section 529(b)(1) (defining  
23 qualified State tuition program) is amended by in-  
24 serting “or by 1 or more eligible educational institu-

1        tions” after “maintained by a State or agency or in-  
2        strumentality thereof”.

3            (2) PRIVATE QUALIFIED TUITION PROGRAMS  
4        LIMITED TO BENEFIT PLANS.—Clause (ii) of section  
5        529(b)(1)(A) is amended by inserting “in the case of  
6        a program established and maintained by a State or  
7        agency or instrumentality thereof,” before “may  
8        make”.

9            (3) CONFORMING AMENDMENTS.—

10            (A) Sections 72(e)(9), 135(c)(2)(C),  
11            135(d)(1)(D), 529, 530(b)(2)(B), 4973(e), and  
12            6693(a)(2)(C) are each amended by striking  
13            “qualified State tuition” each place it appears  
14            and inserting “qualified tuition”.

15            (B) The headings for sections 72(e)(9) and  
16            135(c)(2)(C) are each amended by striking  
17            “QUALIFIED STATE TUITION” and inserting  
18            “QUALIFIED TUITION”.

19            (C) The headings for sections 529(b) and  
20            530(b)(2)(B) are each amended by striking  
21            “QUALIFIED STATE TUITION” and inserting  
22            “QUALIFIED TUITION”.

23            (D) The heading for section 529 is amend-  
24            ed by striking “**STATE**”.

1 (E) The item relating to section 529 in the  
2 table of sections for part VIII of subchapter F  
3 of chapter 1 is amended by striking “State”.

4 (b) EXCLUSION FROM GROSS INCOME OF EDU-  
5 CATION DISTRIBUTIONS FROM QUALIFIED TUITION PRO-  
6 GRAMS.—

7 (1) IN GENERAL.—Section 529(c)(3)(B) (relat-  
8 ing to distributions) is amended to read as follows:

9 “(B) DISTRIBUTIONS FOR QUALIFIED  
10 HIGHER EDUCATION EXPENSES.—

11 “(i) IN GENERAL.—For purposes of  
12 this paragraph—

13 “(I) no amount shall be includ-  
14 ible in gross income under subpara-  
15 graph (A) by reason of a distribution  
16 which consists of providing a benefit  
17 to the distributee which, if paid for by  
18 the distributee, would constitute pay-  
19 ment of a qualified higher education  
20 expense, and

21 “(II) in the case of distributions  
22 not described in subclause (I), the  
23 amount otherwise includible in gross  
24 income under subparagraph (A) shall  
25 be reduced by an amount which bears

1 the same ratio to the otherwise includ-  
2 ible amount as the qualified higher  
3 education expenses (other than ex-  
4 penses paid by distributions described  
5 in subclause (I)) bear to the aggregate  
6 of such distributions.

7 “(ii) EXCEPTION FOR INSTITUTIONAL  
8 PROGRAMS.—In the case of any taxable  
9 year beginning before January 1, 2004,  
10 clause (i) shall not apply with respect to  
11 any distribution during such taxable year  
12 under a qualified tuition program estab-  
13 lished and maintained by 1 or more eligible  
14 educational institutions.

15 “(iii) IN-KIND DISTRIBUTIONS.—Any  
16 benefit furnished to a designated bene-  
17 ficiary under a qualified tuition program  
18 shall be treated as a distribution to the  
19 beneficiary for purposes of this paragraph.

20 “(iv) COORDINATION WITH HOPE AND  
21 LIFETIME LEARNING CREDITS.—The total  
22 amount of qualified higher education ex-  
23 penses with respect to an individual for the  
24 taxable year shall be reduced—

1 “(I) as provided in section  
2 25A(g)(2), and

3 “(II) by the amount of such ex-  
4 penses which were taken into account  
5 in determining the credit allowed to  
6 the taxpayer or any other person  
7 under section 25A.

8 “(v) COORDINATION WITH EDUCATION  
9 SAVINGS ACCOUNTS.—If, with respect to  
10 an individual for any taxable year—

11 “(I) the aggregate distributions  
12 to which clause (i) and section  
13 530(d)(2)(A) apply, exceed

14 “(II) the total amount of quali-  
15 fied higher education expenses other-  
16 wise taken into account under clause  
17 (i) (after the application of clause  
18 (iv)) for such year,

19 the taxpayer shall allocate such expenses  
20 among such distributions for purposes of  
21 determining the amount of the exclusion  
22 under clause (i) and section 530(d)(2)(A).”

23 (2) CONFORMING AMENDMENTS.—

24 (A) Section 135(d)(2)(B) is amended by  
25 striking “the exclusion under section

1           530(d)(2)” and inserting “the exclusions under  
2           sections 529(c)(3)(B)(i) and 530(d)(2)”.

3           (B) Section 221(e)(2)(A) is amended by  
4           inserting “529,” after “135,”.

5           (c) ROLLOVER TO DIFFERENT PROGRAM FOR BEN-  
6           EFIT OF SAME DESIGNATED BENEFICIARY.—Section  
7           529(c)(3)(C) (relating to change in beneficiaries) is  
8           amended—

9           (1) by striking “transferred to the credit” in  
10          clause (i) and inserting “transferred—

11                           “(I) to another qualified tuition  
12                           program for the benefit of the des-  
13                           ignated beneficiary, or

14                           “(II) to the credit”,

15          (2) by adding at the end the following new  
16          clause:

17                           “(iii) LIMITATION ON CERTAIN ROLL-  
18                           OVERS.—Clause (i)(I) shall not apply to  
19                           any amount transferred with respect to a  
20                           designated beneficiary if, at any time dur-  
21                           ing the 1-year period ending on the day of  
22                           such transfer, any other amount was  
23                           transferred which was not includible in  
24                           gross income by reason of clause (i)(I).”,  
25                           and



1           (3) by inserting “OR PROGRAMS” after “BENE-  
2       FICIARIES” in the heading.

3       (d) MEMBER OF FAMILY INCLUDES FIRST COUS-  
4 IN.—Section 529(e)(2) (defining member of family) is  
5 amended by striking “and” at the end of subparagraph  
6 (B), by striking the period at the end of subparagraph  
7 (C) and by inserting “; and”, and by adding at the end  
8 the following new subparagraph:

9           “(D) any first cousin of such beneficiary.”

10       (e) DEFINITION OF QUALIFIED HIGHER EDUCATION  
11 EXPENSES.—

12       (1) IN GENERAL.—Subparagraph (A) of section  
13 529(e)(3) (relating to definition of qualified higher  
14 education expenses) is amended to read as follows:

15           “(A) IN GENERAL.—The term ‘qualified  
16 higher education expenses’ means—

17           “(i) tuition and fees required for the  
18 enrollment or attendance of a designated  
19 beneficiary at an eligible educational insti-  
20 tution for courses of instruction of such  
21 beneficiary at such institution, and

22           “(ii) expenses for books, supplies, and  
23 equipment which are incurred in connec-  
24 tion with such enrollment or attendance,  
25 but not to exceed the allowance for books

1 and supplies included in the cost of attend-  
2 ance (as defined in section 472 of the  
3 Higher Education Act of 1965 (20 U.S.C.  
4 10871l), as in effect on the date of enact-  
5 ment of the Financial Freedom Act of  
6 1999) as determined by the eligible edu-  
7 cational institution.”.

8 (2) EXCEPTION FOR EDUCATION INVOLVING  
9 SPORTS, ETC.—Paragraph (3) of section 529(e) (re-  
10 lating to qualified higher education expenses) is  
11 amended by adding at the end the following new  
12 subparagraph:

13 “(C) EXCEPTION FOR EDUCATION INVOLV-  
14 ING SPORTS, ETC.—The term ‘qualified higher  
15 education expenses’ shall not include expenses  
16 with respect to any course or other education  
17 involving sports, games, or hobbies unless such  
18 course or other education is part of the bene-  
19 ficiary’s degree program or is taken to acquire  
20 or improve job skills of the beneficiary.”.

21 (f) EFFECTIVE DATES.—

22 (1) IN GENERAL.—Except as provided in para-  
23 graph (2), the amendments made by this section  
24 shall apply to taxable years beginning after Decem-  
25 ber 31, 2000.

1           (2) QUALIFIED HIGHER EDUCATION EX-  
2       PENSES.—The amendments made by subsection (e)  
3       shall apply to amounts paid for education furnished  
4       after December 31, 1999.

5 **SEC. 403. EXCLUSION OF CERTAIN AMOUNTS RECEIVED**  
6                   **UNDER THE NATIONAL HEALTH SERVICE**  
7                   **CORPS SCHOLARSHIP PROGRAM, THE F. ED-**  
8                   **WARD HEBERT ARMED FORCES HEALTH PRO-**  
9                   **FESSIONS SCHOLARSHIP AND FINANCIAL AS-**  
10                  **SISTANCE PROGRAM, AND CERTAIN OTHER**  
11                  **PROGRAMS.**

12       (a) IN GENERAL.—Section 117(c) (relating to the ex-  
13       clusion from gross income amounts received as a qualified  
14       scholarship) is amended—

15           (1) by striking “Subsections (a)” and inserting  
16       the following:

17           “(1) IN GENERAL.—Except as provided in para-  
18       graph (2), subsections (a)”, and

19           (2) by adding at the end the following new  
20       paragraph:

21           “(2) EXCEPTIONS.—Paragraph (1) shall not  
22       apply to any amount received by an individual  
23       under—

24           “(A) the National Health Service Corps  
25       Scholarship program under section

1           338A(g)(1)(A) of the Public Health Service  
2           Act,

3           “(B) the Armed Forces Health Professions  
4           Scholarship and Financial Assistance program  
5           under subchapter I of chapter 105 of title 10,  
6           United States Code,

7           “(C) the National Institutes of Health Un-  
8           dergraduate Scholarship program under section  
9           487D of the Public Health Service Act, or

10           “(D) any State program determined by the  
11           Secretary to have substantially similar objec-  
12           tives as such programs.”

13       (b) EFFECTIVE DATES.—

14           (1) IN GENERAL.—Except as provided in para-  
15           graph (2), the amendments made by subsection (a)  
16           shall apply to amounts received in taxable years be-  
17           ginning after December 31, 1993.

18           (2) STATE PROGRAMS.—Section 117(c)(2)(D)  
19           of the Internal Revenue Code of 1986 (as added by  
20           the amendments made by subsection (a)) shall apply  
21           to amounts received in taxable years beginning after  
22           December 31, 1999.

1 **SEC. 404. ADDITIONAL INCREASE IN ARBITRAGE REBATE**  
2 **EXCEPTION FOR GOVERNMENTAL BONDS**  
3 **USED TO FINANCE EDUCATIONAL FACILI-**  
4 **TIES.**

5 (a) IN GENERAL.—Section 148(f)(4)(D)(vii) (relat-  
6 ing to increase in exception for bonds financing public  
7 school capital expenditures) is amended by striking  
8 “\$5,000,000” the second place it appears and inserting  
9 “\$10,000,000”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 subsection (a) shall apply to obligations issued in calendar  
12 years beginning after December 31, 1999.

13 **SEC. 405. MODIFICATION OF ARBITRAGE REBATE RULES**  
14 **APPLICABLE TO PUBLIC SCHOOL CONSTRUC-**  
15 **TION BONDS.**

16 (a) IN GENERAL.—Subparagraph (C) of section  
17 148(f)(4) is amended by adding at the end the following  
18 new clause:

19 “(xviii) 4-YEAR SPENDING REQUIRE-  
20 MENT FOR PUBLIC SCHOOL CONSTRUCTION  
21 ISSUE.—

22 “(I) IN GENERAL.—In the case  
23 of a public school construction issue,  
24 the spending requirements of clause  
25 (ii) shall be treated as met if at least  
26 10 percent of the available construc-

1           tion proceeds of the construction issue  
2           are spent for the governmental pur-  
3           poses of the issue within the 1-year  
4           period beginning on the date the  
5           bonds are issued, 30 percent of such  
6           proceeds are spent for such purposes  
7           within the 2-year period beginning on  
8           such date, 60 percent of such pro-  
9           ceeds are spent for such purposes  
10          within the 3-year period beginning on  
11          such date, and 100 percent of such  
12          proceeds are spent for such purposes  
13          within the 4-year period beginning on  
14          such date.

15               “(II) PUBLIC SCHOOL CON-  
16               STRUCTION ISSUE.—For purposes of  
17               this clause, the term ‘public school  
18               construction issue’ means any con-  
19               struction issue if no bond which is  
20               part of such issue is a private activity  
21               bond and all of the available construc-  
22               tion proceeds of such issue are to be  
23               used for the construction (as defined  
24               in clause (iv)) of public school facili-  
25               ties to provide education or training

1 below the postsecondary level or for  
2 the acquisition of land that is func-  
3 tionally related and subordinate to  
4 such facilities.

5 “(III) OTHER RULES TO  
6 APPLY.—Rules similar to the rules of  
7 the preceding provisions of this sub-  
8 paragraph which apply to clause (ii)  
9 also apply to this clause.”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to obligations issued after Decem-  
12 ber 31, 1999.

13 **SEC. 406. REPEAL OF 60-MONTH LIMITATION ON DEDUC-**  
14 **TION FOR INTEREST ON EDUCATION LOANS.**

15 (a) IN GENERAL.—Section 221 (relating to interest  
16 on education loans) is amended by striking subsection (d)  
17 and by redesignating subsections (e), (f), and (g) as sub-  
18 sections (d), (e), and (f), respectively.

19 (b) CONFORMING AMENDMENT.—Subsection (e) of  
20 section 6050S is amended by striking “section 221(e)(1)”  
21 and inserting “section 221(d)(1)”.

22 (c) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to loan interest payments made  
24 after December 31, 1999, in taxable years ending after  
25 such date.

1                   **TITLE V—HEALTH CARE**  
 2                   **PROVISIONS**

3   **SEC. 501. DEDUCTION FOR HEALTH AND LONG-TERM CARE**  
 4                   **INSURANCE COSTS OF INDIVIDUALS NOT**  
 5                   **PARTICIPATING IN EMPLOYER-SUBSIDIZED**  
 6                   **HEALTH PLANS.**

7           (a) IN GENERAL.—Part VII of subchapter B of chap-  
 8   ter 1 is amended by redesignating section 222 as section  
 9   223 and by inserting after section 221 the following new  
 10   section:

11   **“SEC. 222. HEALTH AND LONG-TERM CARE INSURANCE**  
 12                   **COSTS.**

13           “(a) IN GENERAL.—In the case of an individual,  
 14   there shall be allowed as a deduction an amount equal to  
 15   the applicable percentage of the amount paid during the  
 16   taxable year for insurance which constitutes medical care  
 17   for the taxpayer, the taxpayer’s spouse, and dependents.

18           “(b) APPLICABLE PERCENTAGE.—For purposes of  
 19   subsection (a), the applicable percentage shall be deter-  
 20   mined in accordance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The applicable percentage is—</b>
2001 .....	25
2002 .....	40
2003, 2004, 2005, and 2006 .....	50
2007 .....	75
2008 and thereafter .....	100.

21           “(c) LIMITATION BASED ON OTHER COVERAGE.—



1           “(1) COVERAGE UNDER CERTAIN SUBSIDIZED  
2       EMPLOYER PLANS.—

3           “(A) IN GENERAL.—Subsection (a) shall  
4       not apply to any taxpayer for any calendar  
5       month for which the taxpayer participates in  
6       any health plan maintained by any employer of  
7       the taxpayer or of the spouse of the taxpayer if  
8       50 percent or more of the cost of coverage  
9       under such plan (determined under section  
10      4980B) is paid or incurred by the employer.

11          “(B) EMPLOYER CONTRIBUTIONS TO CAF-  
12      ETERIA PLANS, FLEXIBLE SPENDING ARRANGE-  
13      MENTS, AND MEDICAL SAVINGS ACCOUNTS.—  
14      Employer contributions to a cafeteria plan, a  
15      flexible spending or similar arrangement, or a  
16      medical savings account which are excluded  
17      from gross income under section 106 shall be  
18      treated for purposes of subparagraph (A) as  
19      paid by the employer.

20          “(C) AGGREGATION OF PLANS OF EM-  
21      PLOYER.—A health plan which is not otherwise  
22      described in subparagraph (A) shall be treated  
23      as described in such subparagraph if such plan  
24      would be so described if all health plans of per-  
25      sons treated as a single employer under sub-

1 sections (b), (c), (m), or (o) of section 414 were  
2 treated as one health plan.

3 “(D) SEPARATE APPLICATION TO HEALTH  
4 INSURANCE AND LONG-TERM CARE INSUR-  
5 ANCE.—Subparagraphs (A) and (C) shall be  
6 applied separately with respect to—

7 “(i) plans which include primarily cov-  
8 erage for qualified long-term care services  
9 or are qualified long-term care insurance  
10 contracts, and

11 “(ii) plans which do not include such  
12 coverage and are not such contracts.

13 “(2) COVERAGE UNDER CERTAIN FEDERAL  
14 PROGRAMS.—

15 “(A) IN GENERAL.—Subsection (a) shall  
16 not apply to any amount paid for any coverage  
17 for an individual for any calendar month if, as  
18 of the first day of such month, the individual is  
19 covered under any medical care program de-  
20 scribed in—

21 “(i) title XVIII, XIX, or XXI of the  
22 Social Security Act,

23 “(ii) chapter 55 of title 10, United  
24 States Code,

1 “(iii) chapter 17 of title 38, United  
2 States Code,

3 “(iv) chapter 89 of title 5, United  
4 States Code, or

5 “(v) the Indian Health Care Improve-  
6 ment Act.

7 “(B) EXCEPTIONS.—

8 “(i) QUALIFIED LONG-TERM CARE.—  
9 Subparagraph (A) shall not apply to  
10 amounts paid for coverage under a quali-  
11 fied long-term care insurance contract.

12 “(ii) CONTINUATION COVERAGE OF  
13 FEHBP.—Subparagraph (A)(iv) shall not  
14 apply to coverage which is comparable to  
15 continuation coverage under section  
16 4980B.

17 “(d) LONG-TERM CARE DEDUCTION LIMITED TO  
18 QUALIFIED LONG-TERM CARE INSURANCE CON-  
19 TRACTS.—In the case of a qualified long-term care insur-  
20 ance contract, only eligible long-term care premiums (as  
21 defined in section 213(d)(10)) may be taken into account  
22 under subsection (a).

23 “(e) SPECIAL RULES.—

24 “(1) COORDINATION WITH DEDUCTION FOR  
25 HEALTH INSURANCE COSTS OF SELF-EMPLOYED IN-

1       DIVIDUALS.—The amount taken into account by the  
2       taxpayer in computing the deduction under section  
3       162(l) shall not be taken into account under this  
4       section.

5           “(2) COORDINATION WITH MEDICAL EXPENSE  
6       DEDUCTION.—The amount taken into account by  
7       the taxpayer in computing the deduction under this  
8       section shall not be taken into account under section  
9       213.”

10       (b) DEDUCTION ALLOWED WHETHER OR NOT TAX-  
11       PAYER ITEMIZES OTHER DEDUCTIONS.—Subsection (a)  
12       of section 62 is amended by inserting after paragraph (17)  
13       the following new item:

14           “(18) HEALTH AND LONG-TERM CARE INSUR-  
15       ANCE COSTS.—The deduction allowed by section  
16       222.”

17       (c) CLERICAL AMENDMENT.—The table of sections  
18       for part VII of subchapter B of chapter 1 is amended by  
19       striking the last item and inserting the following new  
20       items:

          “Sec. 222. Health and long-term care insurance costs.  
          “Sec. 223. Cross reference.”

21       (c) EFFECTIVE DATE.—The amendments made by  
22       this section shall apply to taxable years beginning after  
23       December 31, 2000.

1   **SEC. 502. LONG-TERM CARE INSURANCE PERMITTED TO BE**  
2                   **OFFERED UNDER CAFETERIA PLANS AND**  
3                   **FLEXIBLE SPENDING ARRANGEMENTS.**

4           (a) CAFETERIA PLANS.—Subsection (f) of section  
5 125 (defining qualified benefits) is amended by inserting  
6 before the period at the end “unless such product is a  
7 qualified long-term care insurance contract (as defined in  
8 section 7702B)”.

9           (b) FLEXIBLE SPENDING ARRANGEMENTS.—Section  
10 106 (relating to contributions by employer to accident and  
11 health plans) is amended by striking subsection (c).

12           (c) EFFECTIVE DATE.—The amendments made by  
13 this section shall apply to taxable years beginning after  
14 December 31, 2000.

15   **SEC. 503. EXPANSION OF AVAILABILITY OF MEDICAL SAV-**  
16                   **INGS ACCOUNTS.**

17           (a) REPEAL OF LIMITATIONS ON NUMBER OF MED-  
18 ICAL SAVINGS ACCOUNTS.—

19                   (1) IN GENERAL.—Subsections (i) and (j) of  
20 section 220 are hereby repealed.

21                   (2) CONFORMING AMENDMENT.—Paragraph (1)  
22 of section 220(c) is amended by striking subpara-  
23 graph (D).

24           (b) ALL EMPLOYERS MAY OFFER MEDICAL SAVINGS  
25 ACCOUNTS.—

1           (1) IN GENERAL.—Subclause (I) of section  
2           220(c)(1)(A)(iii) (defining eligible individual) is  
3           amended by striking “and such employer is a small  
4           employer”.

5           (2) CONFORMING AMENDMENTS.—

6           (A) Paragraph (1) of section 220(c) is  
7           amended by striking subparagraph (C).

8           (B) Subsection (c) of section 220 is  
9           amended by striking paragraph (4) and by re-  
10          designating paragraph (5) as paragraph (4).

11          (c) INCREASE IN AMOUNT OF DEDUCTION ALLOWED  
12          FOR CONTRIBUTIONS TO MEDICAL SAVINGS ACCOUNTS.—

13          (1) IN GENERAL.—Paragraph (2) of section  
14          220(b) is amended to read as follows:

15               “(2) MONTHLY LIMITATION.—The monthly lim-  
16          itation for any month is the amount equal to  $\frac{1}{12}$  of  
17          the annual deductible (as of the first day of such  
18          month) of the individual’s coverage under the high  
19          deductible health plan.”.

20          (2) CONFORMING AMENDMENT.—Clause (ii) of  
21          section 220(d)(1)(A) is amended by striking “75  
22          percent of”.

23          (d) BOTH EMPLOYERS AND EMPLOYEES MAY CON-  
24          TRIBUTE TO MEDICAL SAVINGS ACCOUNTS.—Paragraph  
25          (5) of section 220(b) is amended to read as follows:

1           “(5) COORDINATION WITH EXCLUSION FOR EM-  
2       PLOYER CONTRIBUTIONS.—The limitation which  
3       would (but for this paragraph) apply under this sub-  
4       section to the taxpayer for any taxable year shall be  
5       reduced (but not below zero) by the amount which  
6       would (but for section 106(b)) be includible in the  
7       taxpayer’s gross income for such taxable year.”.

8       (e) REDUCTION OF PERMITTED DEDUCTIBLES  
9       UNDER HIGH DEDUCTIBLE HEALTH PLANS.—

10           (1) IN GENERAL.—Subparagraph (A) of section  
11       220(c)(2) (defining high deductible health plan) is  
12       amended—

13           (A) by striking “\$1,500” in clause (i) and  
14       inserting “\$1,000”, and

15           (B) by striking “\$3,000” in clause (ii) and  
16       inserting “\$2,000”.

17           (2) CONFORMING AMENDMENT.—Subsection (g)  
18       of section 220 is amended to read as follows:

19       “(g) COST-OF-LIVING ADJUSTMENT.—

20           “(1) IN GENERAL.—In the case of any taxable  
21       year beginning in a calendar year after 1998, each  
22       dollar amount in subsection (c)(2) shall be increased  
23       by an amount equal to—

24           “(A) such dollar amount, multiplied by

1           “(B) the cost-of-living adjustment deter-  
2           mined under section 1(f)(3) for the calendar  
3           year in which such taxable year begins by sub-  
4           stituting ‘calendar year 1997’ for ‘calendar year  
5           1992’ in subparagraph (B) thereof.

6           “(2) SPECIAL RULES.—In the case of the  
7           \$1,000 amount in subsection (c)(2)(A)(i) and the  
8           \$2,000 amount in subsection (c)(2)(A)(ii), para-  
9           graph (1)(B) shall be applied by substituting ‘cal-  
10          endar year 1999’ for ‘calendar year 1997’.

11          “(3) ROUNDING.—If any increase under para-  
12          graph (1) or (2) is not a multiple of \$50, such in-  
13          crease shall be rounded to the nearest multiple of  
14          \$50.

15          (f) MEDICAL SAVINGS ACCOUNTS MAY BE OFFERED  
16          UNDER CAFETERIA PLANS.—Subsection (f) of section  
17          125 is amended by striking “106(b),”.

18          (g) EFFECTIVE DATE.—The amendments made by  
19          this section shall apply to taxable years beginning after  
20          December 31, 2000.

21      **SEC. 504. ADDITIONAL PERSONAL EXEMPTION FOR TAX-**  
22                      **PAYER CARING FOR ELDERLY FAMILY MEM-**  
23                      **BER IN TAXPAYER’S HOME.**

24          (a) IN GENERAL.—Section 151 (relating to allowance  
25          of deductions for personal exemptions) is amended by add-



1 ing at the end redesignating subsection (e) as subsection  
2 (f) and by inserting after subsection (d) the following new  
3 subsection:

4 “(e) ADDITIONAL EXEMPTION FOR CERTAIN ELDER-  
5 LY FAMILY MEMBERS RESIDING WITH TAXPAYER.—

6 “(1) IN GENERAL.—An exemption of the ex-  
7 emption amount for each qualified family member of  
8 the taxpayer.

9 “(2) QUALIFIED FAMILY MEMBER.—For pur-  
10 poses of this subsection, the term ‘qualified family  
11 member’ means, with respect to any taxable year,  
12 any individual—

13 “(A) who is an ancestor of the taxpayer or  
14 of the taxpayer’s spouse or who is the spouse  
15 of any such ancestor,

16 “(B) who is a member for the entire tax-  
17 able year of a household maintained by the tax-  
18 payer, and

19 “(C) who has been certified, before the due  
20 date for filing the return of tax for the taxable  
21 year (without extensions), by a physician (as  
22 defined in section 1861(r)(1) of the Social Se-  
23 curity Act) as being an individual with long-  
24 term care needs described in paragraph (3) for  
25 a period—

1 “(i) which is at least 180 consecutive  
2 days, and

3 “(ii) a portion of which occurs within  
4 the taxable year.

5 Such term shall not include any individual oth-  
6 erwise meeting the requirements of the pre-  
7 ceding sentence unless within the 39½ month  
8 period ending on such due date (or such other  
9 period as the Secretary prescribes) a physician  
10 (as so defined) has certified that such indi-  
11 vidual meets such requirements.

12 “(3) INDIVIDUALS WITH LONG-TERM CARE  
13 NEEDS.—An individual is described in this para-  
14 graph if the individual—

15 “(A) is unable to perform (without sub-  
16 stantial assistance from another individual) at  
17 least 2 activities of daily living (as defined in  
18 section 7702B(c)(2)(B)) due to a loss of func-  
19 tional capacity, or

20 “(B) requires substantial supervision to  
21 protect such individual from threats to health  
22 and safety due to severe cognitive impairment  
23 and is unable to perform, without reminding or  
24 cuing assistance, at least 1 activity of at least  
25 1 activity of daily living (as so defined) or to

1 the extent provided in regulations prescribed by  
2 the Secretary (in consultation with the Sec-  
3 retary of Health and Human Services), is un-  
4 able to engage in age appropriate activities.

5 “(4) SPECIAL RULES.—Rules similar to the  
6 rules of paragraphs (1), (2), (3), (4), and (5) of sec-  
7 tion 21(e) shall apply for purposes of this sub-  
8 section.”

9 (b) EFFECTIVE DATE.—The amendments made by  
10 this section shall apply to taxable years beginning after  
11 December 31, 1999.

12 **SEC. 505. EXPANDED HUMAN CLINICAL TRIALS QUALI-**  
13 **FYING FOR ORPHAN DRUG CREDIT.**

14 (a) IN GENERAL.—Subclause (I) of section  
15 45C(b)(2)(A)(ii) is amended to read as follows:

16 “(I) after the date that the appli-  
17 cation is filed for designation under  
18 such section 526, and”.

19 (b) CONFORMING AMENDMENT.—Clause (i) of sec-  
20 tion 45C(b)(2)(A) is amended by inserting “which is” be-  
21 fore “being” and by inserting before the comma at the  
22 end “and which is designated under section 526 of such  
23 Act”.

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to amounts paid or incurred after  
3 December 31, 1999.

4       **SEC. 506. INCLUSION OF CERTAIN VACCINES AGAINST**  
5                   **STREPTOCOCCUS PNEUMONIAE TO LIST OF**  
6                   **TAXABLE VACCINES.**

7       (a) IN GENERAL.—Section 4132(a)(1) (defining tax-  
8 able vaccine) is amended by adding at the end the fol-  
9 lowing new subparagraph:

10                   “(L) Any conjugate vaccine against strep-  
11                   tococcus pneumoniae.”

12       (b) EFFECTIVE DATE.—

13           (1) SALES.—The amendment made by this sec-  
14 tion shall apply to vaccine sales beginning on the  
15 day after the date on which the Centers for Disease  
16 Control makes a final recommendation for routine  
17 administration to children of any conjugate vaccine  
18 against streptococcus pneumoniae.

19           (2) DELIVERIES.—For purposes of paragraph  
20 (1), in the case of sales on or before the date de-  
21 scribed in such paragraph for which delivery is made  
22 after such date, the delivery date shall be considered  
23 the sale date.

24       (c) REPORT.—Not later than 1 year after the date  
25 of the enactment of this Act, the Comptroller General of

1 the United States shall prepare and submit a report to  
2 the Committee on Ways and Means of the House of Rep-  
3 resentatives and the Committee on Finance of the Senate  
4 on the operation of the Vaccine Injury Compensation  
5 Trust Fund and on the adequacy of such Fund to meet  
6 future claims made under the Vaccine Injury Compensa-  
7 tion Program.

8 **TITLE VI—ESTATE TAX RELIEF**  
9 **Subtitle A—Repeal of Estate, Gift,**  
10 **and Generation-Skipping Taxes;**  
11 **Repeal of Step Up in Basis At**  
12 **Death**

13 **SEC. 601. REPEAL OF ESTATE, GIFT, AND GENERATION-**  
14 **SKIPPING TAXES.**

15 (a) IN GENERAL.—Subtitle B is hereby repealed.

16 (b) EFFECTIVE DATE.—The repeal made by sub-  
17 section (a) shall apply to the estates of decedents dying,  
18 and gifts and generation-skipping transfers made, after  
19 December 31, 2008.

20 **SEC. 602. TERMINATION OF STEP UP IN BASIS AT DEATH.**

21 (a) TERMINATION OF APPLICATION OF SECTION  
22 1014.—Section 1014 (relating to basis of property ac-  
23 quired from a decedent) is amended by adding at the end  
24 the following:

1       “(f) TERMINATION.—In the case of a decedent dying  
2 after December 31, 2008, this section shall not apply to  
3 property for which basis is provided by section 1022.”

4       (b) CONFORMING AMENDMENT.—Subsection (a) of  
5 section 1016 (relating to adjustments to basis) is amended  
6 by striking “and” at the end of paragraph (26), by strik-  
7 ing the period at the end of paragraph (27) and inserting  
8 “; and”, and by adding at the end the following:

9               “(28) to the extent provided in section 1022  
10       (relating to basis for certain property acquired from  
11       a decedent dying after December 31, 2008).”

12 **SEC. 603. CARRYOVER BASIS AT DEATH.**

13       (a) GENERAL RULE.—Part II of subchapter O of  
14 chapter 1 (relating to basis rules of general application)  
15 is amended by inserting after section 1021 the following:

16 **“SEC. 1022. CARRYOVER BASIS FOR CERTAIN PROPERTY**  
17 **ACQUIRED FROM A DECEDENT DYING AFTER**  
18 **DECEMBER 31, 2008.**

19       “(a) CARRYOVER BASIS.—Except as otherwise pro-  
20 vided in this section, the basis of carryover basis property  
21 in the hands of a person acquiring such property from a  
22 decedent shall be determined under section 1015.

23       “(b) CARRYOVER BASIS PROPERTY DEFINED.—

1           “(1) IN GENERAL.—For purposes of this sec-  
2           tion, the term ‘carryover basis property’ means any  
3           property—

4                   “(A) which is acquired from or passed  
5                   from a decedent who died after December 31,  
6                   2008, and

7                   “(B) which is not excluded pursuant to  
8                   paragraph (2).

9           The property taken into account under subpara-  
10          graph (A) shall be determined under section 1014(b)  
11          without regard to subparagraph (A) of the last sen-  
12          tence of paragraph (9) thereof.

13          “(2) CERTAIN PROPERTY NOT CARRYOVER  
14          BASIS PROPERTY.—The term ‘carryover basis prop-  
15          erty’ does not include—

16                   “(A) any item of gross income in respect  
17                   of a decedent described in section 691,

18                   “(B) property which was acquired from the  
19                   decedent by the surviving spouse of the dece-  
20                   dent, the value of which would have been de-  
21                   ductible from the value of the taxable estate of  
22                   the decedent under section 2056, as in effect on  
23                   the day before the date of enactment of the Fi-  
24                   nancial Freedom Act of 1999, and

1           “(C) any includible property of the dece-  
2           dent if the aggregate adjusted fair market value  
3           of such property does not exceed \$2,000,000.

4           For purposes of this paragraph and paragraph (3),  
5           the term ‘adjusted fair market value’ means, with  
6           respect to any property, fair market value reduced  
7           by any indebtedness secured by such property.

8           “(3) PHASEIN OF CARRYOVER BASIS IF IN-  
9           CLUDIBLE PROPERTY EXCEEDS \$1,300,000.—

10           “(A) IN GENERAL.—If the adjusted fair  
11           market value of the includible property of the  
12           decedent exceeds \$1,300,000, but does not ex-  
13           ceed \$2,000,000, the amount of the increase in  
14           the basis of such property which would (but for  
15           this paragraph) result under section 1014 shall  
16           be reduced by the amount which bears the same  
17           ratio to such increase as such excess bears to  
18           \$700,000.

19           “(B) ALLOCATION OF REDUCTION.—The  
20           reduction under subparagraph (A) shall be allo-  
21           cated among only the includible property having  
22           net appreciation and shall be allocated in pro-  
23           portion to the respective amounts of such net  
24           appreciation. For purposes of the preceding  
25           sentence, the term ‘net appreciation’ means the



1 excess of the adjusted fair market value over  
2 the decedent's adjusted basis immediately be-  
3 fore such decedent's death.

4 “(4) INCLUDIBLE PROPERTY.—

5 “(A) IN GENERAL.—For purposes of this  
6 subsection, the term ‘includible property’ means  
7 property which would be included in the gross  
8 estate of the decedent under any of the fol-  
9 lowing provisions as in effect on the day before  
10 the date of the enactment of the Financial  
11 Freedom Act of 1999:

12 “(i) Section 2033.

13 “(ii) Section 2038.

14 “(iii) Section 2040.

15 “(iv) Section 2041.

16 “(v) Section 2042(a)(1).

17 “(B) EXCLUSION OF PROPERTY ACQUIRED  
18 BY SPOUSE.—Such term shall not include prop-  
19 erty described in paragraph (2)(B).

20 “(c) REGULATIONS.—The Secretary shall prescribe  
21 such regulations as may be necessary to carry out the pur-  
22 poses of this section.”

23 (b) MISCELLANEOUS AMENDMENTS RELATED TO  
24 CARRYOVER BASIS.—

1           (1) CAPITAL GAIN TREATMENT FOR INHERITED  
2     ART WORK OR SIMILAR PROPERTY.—

3           (A) IN GENERAL.—Subparagraph (C) of  
4     section 1221(3) (defining capital asset) is  
5     amended by inserting “(other than by reason of  
6     section 1022)” after “is determined”.

7           (B) COORDINATION WITH SECTION 170.—  
8     Paragraph (1) of section 170(e) (relating to  
9     certain contributions of ordinary income and  
10    capital gain property) is amended by adding at  
11    the end the following: “For purposes of this  
12    paragraph, the determination of whether prop-  
13    erty is a capital asset shall be made without re-  
14    gard to the exception contained in section  
15    1221(3)(C) for basis determined under section  
16    1022.”

17          (2) DEFINITION OF EXECUTOR.—Section  
18    7701(a) (relating to definitions) is amended by add-  
19    ing at the end the following:

20           “(47) EXECUTOR.—The term ‘executor’ means  
21    the executor or administrator of the decedent, or, if  
22    there is no executor or administrator appointed,  
23    qualified, and acting within the United States, then  
24    any person in actual or constructive possession of  
25    any property of the decedent.”

1           (3) CLERICAL AMENDMENT.—The table of sec-  
2           tions for part II of subchapter O of chapter 1 is  
3           amended by adding at the end the following new  
4           item:

                  “Sec. 1022. Carryover basis for certain property acquired from a  
                  decendent dying after December 31, 2008.”

5           (c) EFFECTIVE DATE.—The amendments made by  
6           this section shall apply to estates of decedents dying after  
7           December 31, 2008.

8           **Subtitle B—Reductions of Estate**  
9           **and Gift Tax Rates Prior to Repeal**

10          **SEC. 611. ADDITIONAL REDUCTIONS OF ESTATE AND GIFT**

11                           **TAX RATES.**

12          (a) MAXIMUM RATE OF TAX REDUCED TO 50 PER-  
13          CENT.—The table contained in section 2001(c)(1) is  
14          amended by striking the 2 highest brackets and inserting  
15          the following:

Over \$2,500,000 .....	\$1,025,800, plus 50% of the excess over \$2,500,000.”
------------------------	---

16          (b) REPEAL OF PHASEOUT OF GRADUATED  
17          RATES.—Subsection (c) of section 2001 is amended by  
18          striking paragraph (2).

19          (c) ADDITIONAL REDUCTIONS OF RATES OF TAX.—  
20          Subsection (c) of section 2001, as amended by subsection  
21          (b), is amended by adding at the end the following new  
22          paragraph:

1           “(2) PHASEDOWN OF TAX.—In the case of es-  
 2           tates of decedents dying, and gifts made, during any  
 3           calendar year after 2001 and before 2009—

4           “(A) IN GENERAL.—Except as provided in  
 5           subparagraph (C), the tentative tax under this  
 6           subsection shall be determined by using a table  
 7           prescribed by the Secretary (in lieu of using the  
 8           table contained in paragraph (1)) which is the  
 9           same as such table; except that—

10           “(i) each of the rates of tax shall be  
 11           reduced by the number of percentage  
 12           points determined under subparagraph  
 13           (B), and

14           “(ii) the amounts setting forth the tax  
 15           shall be adjusted to the extent necessary to  
 16           reflect the adjustments under clause (i).

17           “(B) PERCENTAGE POINTS OF REDUC-  
 18           TION.—

<b>“For calendar year:</b>	<b>The number of percentage points is:</b>
2002 .....	1
2003 .....	2
2004 .....	3
2005 .....	5
2006 .....	7
2007 .....	9
2008 .....	11.

19           “(C) COORDINATION WITH INCOME TAX  
 20           RATES.—The reductions under subparagraph  
 21           (A)—

1 “(i) shall not reduce any rate under  
2 paragraph (1) below the lowest rate in sec-  
3 tion 1(c), and

4 “(ii) shall not reduce the highest rate  
5 under paragraph (1) below the highest rate  
6 in section 1(c).

7 “(D) COORDINATION WITH CREDIT FOR  
8 STATE DEATH TAXES.—Rules similar to the  
9 rules of subparagraph (A) shall apply to the  
10 table contained in section 2011(b) except that  
11 the Secretary shall prescribe percentage point  
12 reductions which maintain the proportionate re-  
13 lationship (as in effect before any reduction  
14 under this paragraph) between the credit under  
15 section 2011 and the tax rates under subsection  
16 (c).”

17 (d) EFFECTIVE DATES.—

18 (1) SUBSECTIONS (a) AND (b).—The amend-  
19 ments made by subsections (a) and (b) shall apply  
20 to estates of decedents dying, and gifts made, after  
21 December 31, 2000.

22 (2) SUBSECTION (c).—The amendment made by  
23 subsection (c) shall apply to estates of decedents  
24 dying, and gifts made, after December 31, 2001.

1 **Subtitle C—Unified Credit Re-**  
2 **placed With Unified Exemption**  
3 **Amount**

4 **SEC. 621. UNIFIED CREDIT AGAINST ESTATE AND GIFT**  
5 **TAXES REPLACED WITH UNIFIED EXEMPTION**  
6 **AMOUNT.**

7 (a) IN GENERAL.—

8 (1) ESTATE TAX.—Part IV of subchapter A of  
9 chapter 11 is amended by inserting after section  
10 2051 the following new section:

11 **“SEC. 2052. EXEMPTION.**

12 “(a) IN GENERAL.—For purposes of the tax imposed  
13 by section 2001, the value of the taxable estate shall be  
14 determined by deducting from the value of the gross estate  
15 an amount equal to the excess (if any) of—

16 “(1) the exemption amount for the calendar  
17 year in which the decedent died, over

18 “(2) the sum of—

19 “(A) the aggregate amount allowed as an  
20 exemption under section 2521 with respect to  
21 gifts made by the decedent after December 31,  
22 2000, and

23 “(B) the aggregate amount of gifts made  
24 by the decedent for which credit was allowed by  
25 section 2505 (as in effect on the day before the

1 date of the enactment of the Financial Freedom  
2 Act of 1999).

3 Gifts which are includible in the gross estate of the dece-  
4 dent shall not be taken into account in determining the  
5 amounts under paragraph (2).

6 “(b) EXEMPTION AMOUNT.—For purposes of sub-  
7 section (a), the term ‘exemption amount’ means the  
8 amount determined in accordance with the following table:

<b>“In the case of calendar year:</b>	<b>The exemption amount is:</b>
2001 .....	\$675,000
2002 and 2003 .....	\$700,000
2004 .....	\$850,000
2005 .....	\$950,000
2006 or thereafter .....	\$1,000,000.”

9 (2) GIFT TAX.—Subchapter C of chapter 12  
10 (relating to deductions) is amended by inserting be-  
11 fore section 2522 the following new section:

12 **“SEC. 2521. EXEMPTION.**

13 “(a) IN GENERAL.—In computing taxable gifts for  
14 any calendar year, there shall be allowed as a deduction  
15 in the case of a citizen or resident of the United States  
16 an amount equal to the excess of—

17 “(1) the exemption amount determined under  
18 section 2052 for such calendar year, over

19 “(2) the sum of—

20 “(A) the aggregate amount allowed as an  
21 exemption under this section for all preceding  
22 calendar years after 2000, and

1           “(B) the aggregate amount of gifts for  
2           which credit was allowed by section 2505 (as in  
3           effect on the day before the date of the enact-  
4           ment of the Financial Freedom Act of 1999).”

5       (b) REPEAL OF UNIFIED CREDITS.—

6           (1) Section 2010 (relating to unified credit  
7           against estate tax) is hereby repealed.

8           (2) Section 2505 (relating to unified credit  
9           against gift tax) is hereby repealed.

10       (c) CONFORMING AMENDMENTS.—

11           (1)(A) Subparagraph (B) of section 2001(b)(1)  
12           is amended by inserting before the comma “reduced  
13           by the amount of described in section 2052(a)(2)”.

14           (B) Subsection (b) of section 2001 is amended  
15           by adding at the end the following new sentence:  
16           “For purposes of paragraph (2), the amount of the  
17           tax payable under chapter 12 shall be determined  
18           without regard to the credit provided by section  
19           2505 (as in effect on the day before the date of the  
20           enactment of the Financial Freedom Act of 1999).”

21           (2) Subsection (f) of section 2011 is amended  
22           by striking “, reduced by the amount of the unified  
23           credit provided by section 2010”.



1           (3) Subsection (a) of section 2012 is amended  
2           by striking “and the unified credit provided by sec-  
3           tion 2010”.

4           (4) Subsection (b) of section 2013 is amended  
5           by inserting before the period at the end of the first  
6           sentence “and increased by the exemption allowed  
7           under section 2052 or 2106(a)(4) (or the cor-  
8           responding provisions of prior law) in determining  
9           the taxable estate of the transferor for purposes of  
10          the estate tax”.

11          (5) Subparagraph (A) of section 2013(c)(1) is  
12          amended by striking “2010,”.

13          (6) Paragraph (2) of section 2014(b) is amend-  
14          ed by striking “2010,”.

15          (7) Clause (ii) of section 2056A(b)(12)(C) is  
16          amended to read as follows:

17                 “(ii) to treat any reduction in the tax  
18                 imposed by paragraph (1)(A) by reason of  
19                 the credit allowable under section 2010 (as  
20                 in effect on the day before the date of the  
21                 enactment of the Financial Freedom Act of  
22                 1999) or the exemption allowable under  
23                 section 2052 with respect to the decedent  
24                 as such a credit or exemption (as the case  
25                 may be) allowable to such surviving spouse

1                   for purposes of determining the amount of  
2                   the exemption allowable under section  
3                   2521 with respect to taxable gifts made by  
4                   the surviving spouse during the year in  
5                   which the spouse becomes a citizen or any  
6                   subsequent year.”.

7           (8) Section 2102 is amended by striking sub-  
8   section (c).

9           (9) Subsection (a) of section 2106 is amended  
10   by adding at the end the following new paragraph:

11           “(4) EXEMPTION.—

12                   “(A) IN GENERAL.—An exemption of  
13                   \$60,000.

14                   “(B) RESIDENTS OF POSSESSIONS OF THE  
15                   UNITED STATES.—In the case of a decedent  
16                   who is considered to be a nonresident not a cit-  
17                   izen of the United States under section 2209,  
18                   the exemption under this paragraph shall be the  
19                   greater of—

20                           “(i) \$60,000, or

21                           “(ii) that proportion of \$175,000  
22                   which the value of that part of the dece-  
23                   dent’s gross estate which at the time of his  
24                   death is situated in the United States

1 bears to the value of his entire gross estate  
2 wherever situated.

3 “(C) SPECIAL RULES.—

4 “(i) COORDINATION WITH TREA-  
5 TIES.—To the extent required under any  
6 treaty obligation of the United States, the  
7 exemption allowed under this paragraph  
8 shall be equal to the amount which bears  
9 the same ratio to the exemption amount  
10 under section 2052 (for the calendar year  
11 in which the decedent died) as the value of  
12 the part of the decedent’s gross estate  
13 which at the time of his death is situated  
14 in the United States bears to the value of  
15 his entire gross estate wherever situated.  
16 For purposes of the preceding sentence,  
17 property shall not be treated as situated in  
18 the United States if such property is ex-  
19 empt from the tax imposed by this sub-  
20 chapter under any treaty obligation of the  
21 United States.

22 “(ii) COORDINATION WITH GIFT TAX  
23 EXEMPTION AND UNIFIED CREDIT.—If an  
24 exemption has been allowed under section  
25 2521 (or a credit has been allowed under

1                   section 2505 as in effect on the day before  
2                   the date of the enactment of the Financial  
3                   Freedom Act of 1999) with respect to any  
4                   gift made by the decedent, each dollar  
5                   amount contained in subparagraph (A) or  
6                   (B) or the exemption amount applicable  
7                   under clause (i) of this subparagraph  
8                   (whichever applies) shall be reduced by the  
9                   exemption so allowed under 2521 (or, in  
10                  the case of such a credit, by the amount of  
11                  the gift for which the credit was so al-  
12                  lowed).”

13               (10) Subsection (c) of section 2107 is  
14               amended—

15                   (A) by striking paragraph (1) and by re-  
16                   designating paragraphs (2) and (3) as para-  
17                   graphs (1) and (2), respectively, and

18                   (B) by striking the second sentence of  
19                   paragraph (2) (as so redesignated).

20               (11) Section 2206 is amended by striking “the  
21               taxable estate” in the first sentence and inserting  
22               “the sum of the taxable estate and the amount of  
23               the exemption allowed under section 2052 or  
24               2106(a)(4) in computing the taxable estate”.

1           (12) Section 2207 is amended by striking “the  
2           taxable estate” in the first sentence and inserting  
3           “the sum of the taxable estate and the amount of  
4           the exemption allowed under section 2052 or  
5           2106(a)(4) in computing the taxable estate”.

6           (13) Subparagraph (B) of section 2207B(a)(1)  
7           is amended to read as follows:

8                   “(B) the sum of the taxable estate and the  
9                   amount of the exemption allowed under section  
10                  2052 or 2106(a)(4) in computing the taxable  
11                  estate.”

12           (14) Subsection (a) of section 2503 is amended  
13           by striking “section 2522” and inserting “section  
14           2521”.

15           (15) Paragraph (1) of section 6018(a) is  
16           amended by striking “\$600,000” and inserting “the  
17           exemption amount under section 2052 for the cal-  
18           endar year which includes the date of death”.

19           (16) Subparagraph (A) of section 6601(j)(2) is  
20           amended to read as follows:

21                   “(A) the amount of the tax which would be  
22                   imposed by chapter 11 on an amount of taxable  
23                   estate equal to the excess of \$1,000,000 over  
24                   the exemption amount allowable under section  
25                   2052, or”.

1           (17) The table of sections for part II of sub-  
2       chapter A of chapter 11 is amended by striking the  
3       item relating to section 2010.

4           (18) The table of sections for subchapter A of  
5       chapter 12 is amended by striking the item relating  
6       to section 2505.

7       (d) EFFECTIVE DATE.—The amendments made by  
8       this section—

9           (1) insofar as they relate to the tax imposed by  
10      chapter 11 of the Internal Revenue Code of 1986,  
11      shall apply to estates of decedents dying after De-  
12      cember 31, 2000, and

13          (2) insofar as they relate to the tax imposed by  
14      chapter 12 of such Code, shall apply to gifts made  
15      after December 31, 2000.

16           **Subtitle D—Modifications of**  
17      **Generation-Skipping Transfer Tax**

18      **SEC. 631. DEEMED ALLOCATION OF GST EXEMPTION TO**  
19                      **LIFETIME TRANSFERS TO TRUSTS; RETRO-**  
20                      **ACTIVE ALLOCATIONS.**

21      (a) IN GENERAL.—Section 2632 (relating to special  
22      rules for allocation of GST exemption) is amended by re-  
23      designating subsection (c) as subsection (e) and by insert-  
24      ing after subsection (b) the following new subsections:

1       “(c) DEEMED ALLOCATION TO CERTAIN LIFETIME  
2 TRANSFERS TO GST TRUSTS.—

3           “(1) IN GENERAL.—If any individual makes an  
4 indirect skip during such individual’s lifetime, any  
5 unused portion of such individual’s GST exemption  
6 shall be allocated to the property transferred to the  
7 extent necessary to make the inclusion ratio for such  
8 property zero. If the amount of the indirect skip ex-  
9 ceeds such unused portion, the entire unused portion  
10 shall be allocated to the property transferred.

11          “(2) UNUSED PORTION.—For purposes of para-  
12 graph (1), the unused portion of an individual’s  
13 GST exemption is that portion of such exemption  
14 which has not previously been—

15           “(A) allocated by such individual,

16           “(B) treated as allocated under subsection  
17 (b) with respect to a direct skip occurring dur-  
18 ing or before the calendar year in which the in-  
19 direct skip is made, or

20           “(C) treated as allocated under paragraph  
21 (1) with respect to a prior indirect skip.

22          “(3) DEFINITIONS.—

23           “(A) INDIRECT SKIP.—For purposes of  
24 this subsection, the term ‘indirect skip’ means  
25 any transfer of property (other than a direct

1 skip) subject to the tax imposed by chapter 12  
2 made to a GST trust.

3 “(B) GST TRUST.—The term ‘GST trust’  
4 means a trust that could have a generation-  
5 skipping transfer with respect to the transferor  
6 unless—

7 “(i) the trust instrument provides that  
8 more than 25 percent of the trust corpus  
9 must be distributed to or may be with-  
10 drawn by 1 or more individuals who are  
11 non-skip persons—

12 “(I) before the date that the indi-  
13 vidual attains age 46,

14 “(II) on or before 1 or more  
15 dates specified in the trust instrument  
16 that will occur before the date that  
17 such individual attains age 46, or

18 “(III) upon the occurrence of an  
19 event that, in accordance with regula-  
20 tions prescribed by the Secretary, may  
21 reasonably be expected to occur before  
22 the date that such individual attains  
23 age 46;

24 “(ii) the trust instrument provides  
25 that more than 25 percent of the trust cor-



1           pus must be distributed to or may be with-  
2           drawn by 1 or more individuals who are  
3           non-skip persons and who are living on the  
4           date of death of another person identified  
5           in the instrument (by name or by class)  
6           who is more than 10 years older than such  
7           individuals;

8           “(iii) the trust instrument provides  
9           that, if 1 or more individuals who are non-  
10          skip persons die on or before a date or  
11          event described in clause (i) or (ii), more  
12          than 25 percent of the trust corpus either  
13          must be distributed to the estate or estates  
14          of 1 or more of such individuals or is sub-  
15          ject to a general power of appointment ex-  
16          ercisable by 1 or more of such individuals;

17          “(iv) the trust is a trust any portion  
18          of which would be included in the gross es-  
19          tate of a non-skip person (other than the  
20          transferor) if such person died immediately  
21          after the transfer;

22          “(v) the trust is a charitable lead an-  
23          nuity trust (within the meaning of section  
24          2642(e)(3)(A)) or a charitable remainder  
25          annuity trust or a charitable remainder

1 unitrust (within the meaning of section  
2 664(d)); or

3 “(vi) the trust is a trust with respect  
4 to which a deduction was allowed under  
5 section 2522 for the amount of an interest  
6 in the form of the right to receive annual  
7 payments of a fixed percentage of the net  
8 fair market value of the trust property (de-  
9 termined yearly) and which is required to  
10 pay principal to a non-skip person if such  
11 person is alive when the yearly payments  
12 for which the deduction was allowed termi-  
13 nate.

14 For purposes of this subparagraph, the value of  
15 transferred property shall not be considered to  
16 be includible in the gross estate of a non-skip  
17 person or subject to a right of withdrawal by  
18 reason of such person holding a right to with-  
19 draw so much of such property as does not ex-  
20 ceed the amount referred to in section 2503(b)  
21 with respect to any transferor, and it shall be  
22 assumed that powers of appointment held by  
23 non-skip persons will not be exercised.

24 “(4) AUTOMATIC ALLOCATIONS TO CERTAIN  
25 GST TRUSTS.—For purposes of this subsection, an

1 indirect skip to which section 2642(f) applies shall  
2 be deemed to have been made only at the close of  
3 the estate tax inclusion period. The fair market  
4 value of such transfer shall be the fair market value  
5 of the trust property at the close of the estate tax  
6 inclusion period.

7 “(5) APPLICABILITY AND EFFECT.—

8 “(A) IN GENERAL.—An individual—

9 “(i) may elect to have this subsection  
10 not apply to—

11 “(I) an indirect skip, or

12 “(II) any or all transfers made  
13 by such individual to a particular  
14 trust, and

15 “(ii) may elect to treat any trust as a  
16 GST trust for purposes of this subsection  
17 with respect to any or all transfers made  
18 by such individual to such trust.

19 “(B) ELECTIONS.—

20 “(i) ELECTIONS WITH RESPECT TO  
21 INDIRECT SKIPS.—An election under sub-  
22 paragraph (A)(i)(I) shall be deemed to be  
23 timely if filed on a timely filed gift tax re-  
24 turn for the calendar year in which the  
25 transfer was made or deemed to have been

1           made pursuant to paragraph (4) or on  
2           such later date or dates as may be pre-  
3           scribed by the Secretary.

4           “(ii) OTHER ELECTIONS.—An election  
5           under clause (i)(II) or (ii) of subparagraph  
6           (A) may be made on a timely filed gift tax  
7           return for the calendar year for which the  
8           election is to become effective.

9           “(d) RETROACTIVE ALLOCATIONS.—

10          “(1) IN GENERAL.—If—

11           “(A) a non-skip person has an interest or  
12           a future interest in a trust to which any trans-  
13           fer has been made,

14           “(B) such person—

15           “(i) is a lineal descendant of a grand-  
16           parent of the transferor or of a grand-  
17           parent of the transferor’s spouse or former  
18           spouse, and

19           “(ii) is assigned to a generation below  
20           the generation assignment of the trans-  
21           feror, and

22           “(C) such person predeceases the trans-  
23           feror,

24           then the transferor may make an allocation of any  
25           of such transferor’s unused GST exemption to any

1 previous transfer or transfers to the trust on a  
2 chronological basis.

3 “(2) SPECIAL RULES.—If the allocation under  
4 paragraph (1) by the transferor is made on a gift  
5 tax return filed on or before the date prescribed by  
6 section 6075(b) for gifts made within the calendar  
7 year within which the non-skip person’s death  
8 occurred—

9 “(A) the value of such transfer or trans-  
10 fers for purposes of section 2642(a) shall be de-  
11 termined as if such allocation had been made  
12 on a timely filed gift tax return for each cal-  
13 endar year within which each transfer was  
14 made,

15 “(B) such allocation shall be effective im-  
16 mediately before such death, and

17 “(C) the amount of the transferor’s unused  
18 GST exemption available to be allocated shall  
19 be determined immediately before such death.

20 “(3) FUTURE INTEREST.—For purposes of this  
21 subsection, a person has a future interest in a trust  
22 if the trust may permit income or corpus to be paid  
23 to such person on a date or dates in the future.”.

1 (b) CONFORMING AMENDMENT.—Paragraph (2) of  
2 section 2632(b) is amended by striking “with respect to  
3 a direct skip” and inserting “or subsection (c)(1)”.

4 (c) EFFECTIVE DATES.—

5 (1) DEEMED ALLOCATION.—Section 2632(c) of  
6 the Internal Revenue Code of 1986 (as added by  
7 subsection (a)), and the amendment made by sub-  
8 section (b), shall apply to transfers subject to chap-  
9 ter 11 or 12 made after December 31, 1999, and to  
10 estate tax inclusion periods ending after December  
11 31, 1999.

12 (2) RETROACTIVE ALLOCATIONS.—Section  
13 2632(d) of the Internal Revenue Code of 1986 (as  
14 added by subsection (a)) shall apply to deaths of  
15 non-skip persons occurring after the date of the en-  
16 actment of this Act.

17 **SEC. 632. SEVERING OF TRUSTS.**

18 (a) IN GENERAL.—Subsection (a) of section 2642  
19 (relating to inclusion ratio) is amended by adding at the  
20 end the following new paragraph:

21 “(3) SEVERING OF TRUSTS.—

22 “(A) IN GENERAL.—If a trust is severed in  
23 a qualified severance, the trusts resulting from  
24 such severance shall be treated as separate  
25 trusts thereafter for purposes of this chapter.

1                   “(B) QUALIFIED SEVERANCE.—For pur-  
2 poses of subparagraph (A)—

3                   “(i) IN GENERAL.—The term ‘quali-  
4 fied severance’ means the division of a sin-  
5 gle trust and the creation (by any means  
6 available under the governing instrument  
7 or under local law) of 2 or more trusts if—

8                   “(I) the single trust was divided  
9 on a fractional basis, and

10                   “(II) the terms of the new trusts,  
11 in the aggregate, provide for the same  
12 succession of interests of beneficiaries  
13 as are provided in the original trust.

14                   “(ii) TRUSTS WITH INCLUSION RATIO  
15 GREATER THAN ZERO.—If a trust has an  
16 inclusion ratio of greater than zero and  
17 less than 1, a severance is a qualified sev-  
18 erance only if the single trust is divided  
19 into 2 trusts, one of which receives a frac-  
20 tional share of the total value of all trust  
21 assets equal to the applicable fraction of  
22 the single trust immediately before the sev-  
23 erance. In such case, the trust receiving  
24 such fractional share shall have an inclu-

1                   sion ratio of zero and the other trust shall  
2                   have an inclusion ratio of 1.

3                   “(iii)     REGULATIONS.—The     term  
4                   ‘qualified severance’ includes any other  
5                   severance permitted under regulations pre-  
6                   scribed by the Secretary.

7                   “(C)     TIMING     AND     MANNER     OF  
8                   SEVERANCES.—A severance pursuant to this  
9                   paragraph may be made at any time. The Sec-  
10                  retary shall prescribe by forms or regulations  
11                  the manner in which the qualified severance  
12                  shall be reported to the Secretary.”.

13               (b) EFFECTIVE DATE.—The amendment made by  
14               this section shall apply to severances after the date of the  
15               enactment of this Act.

16   **SEC. 633. MODIFICATION OF CERTAIN VALUATION RULES.**

17               (a) GIFTS FOR WHICH GIFT TAX RETURN FILED OR  
18               DEEMED ALLOCATION MADE.—Paragraph (1) of section  
19               2642(b) (relating to valuation rules, etc.) is amended to  
20               read as follows:

21                   “(1) GIFTS FOR WHICH GIFT TAX RETURN  
22                   FILED OR DEEMED ALLOCATION MADE.—If the allo-  
23                   cation of the GST exemption to any transfers of  
24                   property is made on a gift tax return filed on or be-  
25                   fore the date prescribed by section 6075(b) for such



1 transfer or is deemed to be made under section 2632  
2 (b)(1) or (c)(1)—

3 “(A) the value of such property for pur-  
4 poses of subsection (a) shall be its value as fi-  
5 nally determined for purposes of chapter 12  
6 (within the meaning of section 2001(f)(2)), or,  
7 in the case of an allocation deemed to have been  
8 made at the close of an estate tax inclusion pe-  
9 riod, its value at the time of the close of the es-  
10 tate tax inclusion period, and

11 “(B) such allocation shall be effective on  
12 and after the date of such transfer, or, in the  
13 case of an allocation deemed to have been made  
14 at the close of an estate tax inclusion period, on  
15 and after the close of such estate tax inclusion  
16 period.”.

17 (b) TRANSFERS AT DEATH.—Subparagraph (A) of  
18 section 2642(b)(2) is amended to read as follows:

19 “(A) TRANSFERS AT DEATH.—If property  
20 is transferred as a result of the death of the  
21 transferor, the value of such property for pur-  
22 poses of subsection (a) shall be its value as fi-  
23 nally determined for purposes of chapter 11; ex-  
24 cept that, if the requirements prescribed by the  
25 Secretary respecting allocation of post-death

1 changes in value are not met, the value of such  
2 property shall be determined as of the time of  
3 the distribution concerned.”.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall take effect as if included in the amend-  
6 ments made by section 1431 of the Tax Reform Act of  
7 1986.

8 **SEC. 634. RELIEF PROVISIONS.**

9 (a) IN GENERAL.—Section 2642 is amended by add-  
10 ing at the end the following new subsection:

11 “(g) RELIEF PROVISIONS.—

12 “(1) RELIEF FOR LATE ELECTIONS.—

13 “(A) IN GENERAL.—The Secretary shall by  
14 regulation prescribe such circumstances and  
15 procedures under which extensions of time will  
16 be granted to make—

17 “(i) an allocation of GST exemption  
18 described in paragraph (1) or (2) of sub-  
19 section (b), and

20 “(ii) an election under subsection  
21 (b)(3) or (c)(5) of section 2632.

22 Such regulations shall include procedures for  
23 requesting comparable relief with respect to  
24 transfers made before the date of enactment of  
25 this paragraph.

1                   “(B) BASIS FOR DETERMINATIONS.—In  
2                   determining whether to grant relief under this  
3                   paragraph, the Secretary shall take into ac-  
4                   count all relevant circumstances, including evi-  
5                   dence of intent contained in the trust instru-  
6                   ment or instrument of transfer and such other  
7                   factors as the Secretary deems relevant. For  
8                   purposes of determining whether to grant relief  
9                   under this paragraph, the time for making the  
10                  allocation (or election) shall be treated as if not  
11                  expressly prescribed by statute.

12               “(2) SUBSTANTIAL COMPLIANCE.—An alloca-  
13               tion of GST exemption under section 2632 that  
14               demonstrates an intent to have the lowest possible  
15               inclusion ratio with respect to a transfer or a trust  
16               shall be deemed to be an allocation of so much of  
17               the transferor’s unused GST exemption as produces  
18               the lowest possible inclusion ratio. In determining  
19               whether there has been substantial compliance, all  
20               relevant circumstances shall be taken into account,  
21               including evidence of intent contained in the trust  
22               instrument or instrument of transfer and such other  
23               factors as the Secretary deems relevant.”.

24               (b) EFFECTIVE DATES.—

1           (1) RELIEF FOR LATE ELECTIONS.—Section  
2           2642(g)(1) of the Internal Revenue Code of 1986  
3           (as added by subsection (a)) shall apply to requests  
4           pending on, or filed after, the date of the enactment  
5           of this Act.

6           (2) SUBSTANTIAL COMPLIANCE.—Section  
7           2642(g)(2) of such Code (as so added) shall take ef-  
8           fect on the date of the enactment of this Act and  
9           shall apply to allocations made prior to such date for  
10          purposes of determining the tax consequences of  
11          generation-skipping transfers with respect to which  
12          the period of time for filing claims for refund has  
13          not expired. No negative implication is intended with  
14          respect to the availability of relief for late elections  
15          or the application of a rule of substantial compliance  
16          prior to the enactment of this amendment.

17 **TITLE VII—TAX RELIEF FOR DIS-**  
18 **TRESSED COMMUNITIES AND**  
19 **INDUSTRIES**

20 **Subtitle A—American Community**  
21 **Renewal Act of 1999**

22 **SEC. 701. SHORT TITLE.**

23           This subtitle may be cited as the “American Commu-  
24          nity Renewal Act of 1999”.

1   **SEC. 702. DESIGNATION OF AND TAX INCENTIVES FOR RE-**  
2                   **NEWAL COMMUNITIES.**

3 (a) IN GENERAL.—Chapter 1 is amended by adding  
4 at the end the following new subchapter:

## 5 “Subchapter X—Renewal Communities

“Part I. Designation.

“Part II. Renewal community capital gain; renewal community business.

“Part III. Family development accounts.

“Part IV. Additional incentives.

## 6 “PART I—DESIGNATION

“Sec. 1400E. Designation of renewal communities.

**7 “SEC. 1400E. DESIGNATION OF RENEWAL COMMUNITIES.**

8           “(a) DESIGNATION.—

9                   “(1) DEFINITIONS.—For purposes of this title,  
10           the term ‘renewal community’ means any area—

“(A) which is nominated by one or more local governments and the State or States in which it is located for designation as a renewal community (hereinafter in this section referred to as a ‘nominated area’); and

16 “(B) which the Secretary of Housing and  
17 Urban Development designates as a renewal  
18 community, after consultation with—

19 “(i) the Secretaries of Agriculture,  
20 Commerce, Labor, and the Treasury; the  
21 Director of the Office of Management and

1                   Budget; and the Administrator of the  
2                   Small Business Administration; and

3                   “(ii) in the case of an area on an In-  
4                   dian reservation, the Secretary of the Inte-  
5                   rior.

6                   “(2) NUMBER OF DESIGNATIONS.—

7                   “(A) IN GENERAL.—The Secretary of  
8                   Housing and Urban Development may des-  
9                   ignate not more than 20 nominated areas as re-  
10                  newal communities.

11                  “(B) MINIMUM DESIGNATION IN RURAL  
12                  AREAS.—Of the areas designated under para-  
13                  graph (1), at least 4 must be areas—

14                  “(i) which are within a local govern-  
15                  ment jurisdiction or jurisdictions with a  
16                  population of less than 50,000,

17                  “(ii) which are outside of a metropoli-  
18                  tan statistical area (within the meaning of  
19                  section 143(k)(2)(B)), or

20                  “(iii) which are determined by the  
21                  Secretary of Housing and Urban Develop-  
22                  ment, after consultation with the Secretary  
23                  of Commerce, to be rural areas.

24                  “(3) AREAS DESIGNATED BASED ON DEGREE  
25                  OF POVERTY, ETC.—

1           “(A) IN GENERAL.—Except as otherwise  
2           provided in this section, the nominated areas  
3           designated as renewal communities under this  
4           subsection shall be those nominated areas with  
5           the highest average ranking with respect to the  
6           criteria described in subparagraphs (B), (C),  
7           and (D) of subsection (c)(3). For purposes of  
8           the preceding sentence, an area shall be ranked  
9           within each such criterion on the basis of the  
10          amount by which the area exceeds such cri-  
11          terion, with the area which exceeds such cri-  
12          terion by the greatest amount given the highest  
13          ranking.

14          “(B) EXCEPTION WHERE INADEQUATE  
15          COURSE OF ACTION, ETC.—An area shall not be  
16          designated under subparagraph (A) if the Sec-  
17          retary of Housing and Urban Development de-  
18          termines that the course of action described in  
19          subsection (d)(2) with respect to such area is  
20          inadequate.

21          “(C) PRIORITY FOR EMPOWERMENT ZONES  
22          AND ENTERPRISE COMMUNITIES WITH RESPECT  
23          TO FIRST HALF OF DESIGNATIONS.—With re-  
24          spect to the first 10 designations made under  
25          this section—

1                   “(i) all shall be chosen from nomi-  
2                   nated areas which are empowerment zones  
3                   or enterprise communities (and are other-  
4                   wise eligible for designation under this sec-  
5                   tion); and

6                   “(ii) 2 shall be areas described in  
7                   paragraph (2)(B).

8                   “(4) LIMITATION ON DESIGNATIONS.—

9                   “(A) PUBLICATION OF REGULATIONS.—  
10                  The Secretary of Housing and Urban Develop-  
11                  ment shall prescribe by regulation no later than  
12                  4 months after the date of the enactment of  
13                  this section, after consultation with the officials  
14                  described in paragraph (1)(B)—

15                  “(i) the procedures for nominating an  
16                  area under paragraph (1)(A);

17                  “(ii) the parameters relating to the  
18                  size and population characteristics of a re-  
19                  newal community; and

20                  “(iii) the manner in which nominated  
21                  areas will be evaluated based on the cri-  
22                  teria specified in subsection (d).

23                  “(B) TIME LIMITATIONS.—The Secretary  
24                  of Housing and Urban Development may des-  
25                  ignate nominated areas as renewal communities



1           only during the 24-month period beginning on  
2           the first day of the first month following the  
3           month in which the regulations described in  
4           subparagraph (A) are prescribed.

5           “(C) PROCEDURAL RULES.—The Secretary  
6           of Housing and Urban Development shall not  
7           make any designation of a nominated area as a  
8           renewal community under paragraph (2)  
9           unless—

10           “(i) the local governments and the  
11           States in which the nominated area is lo-  
12           cated have the authority—

13           “(I) to nominate such area for  
14           designation as a renewal community;

15           “(II) to make the State and local  
16           commitments described in subsection  
17           (d); and

18           “(III) to provide assurances sat-  
19           isfactory to the Secretary of Housing  
20           and Urban Development that such  
21           commitments will be fulfilled,

22           “(ii) a nomination regarding such  
23           area is submitted in such a manner and in  
24           such form, and contains such information,  
25           as the Secretary of Housing and Urban

1                   Development shall by regulation prescribe;  
2                   and  
3                   “(iii) the Secretary of Housing and  
4                   Urban Development determines that any  
5                   information furnished is reasonably accu-  
6                   rate.

7                   “(5) NOMINATION PROCESS FOR INDIAN RES-  
8                   ERVATIONS.—For purposes of this subchapter, in  
9                   the case of a nominated area on an Indian reserva-  
10                  tion, the reservation governing body (as determined  
11                  by the Secretary of the Interior) shall be treated as  
12                  being both the State and local governments with re-  
13                  spect to such area.

14                  “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-  
15                  FECT.—

16                  “(1) IN GENERAL.—Any designation of an area  
17                  as a renewal community shall remain in effect dur-  
18                  ing the period beginning on the date of the designa-  
19                  tion and ending on the earliest of—

20                         “(A) December 31, 2007,

21                         “(B) the termination date designated by  
22                         the State and local governments in their nomi-  
23                         nation, or

1                   “(C) the date the Secretary of Housing  
2                   and Urban Development revokes such designa-  
3                   tion.

4                   “(2) REVOCATION OF DESIGNATION.—The Sec-  
5                   retary of Housing and Urban Development may re-  
6                   voke the designation under this section of an area if  
7                   such Secretary determines that the local government  
8                   or the State in which the area is located—

9                   “(A) has modified the boundaries of the  
10                  area, or

11                  “(B) is not complying substantially with,  
12                  or fails to make progress in achieving, the State  
13                  or local commitments, respectively, described in  
14                  subsection (d).

15                  “(c) AREA AND ELIGIBILITY REQUIREMENTS.—

16                  “(1) IN GENERAL.—The Secretary of Housing  
17                  and Urban Development may designate a nominated  
18                  area as a renewal community under subsection (a)  
19                  only if the area meets the requirements of para-  
20                  graphs (2) and (3) of this subsection.

21                  “(2) AREA REQUIREMENTS.—A nominated area  
22                  meets the requirements of this paragraph if—

23                  “(A) the area is within the jurisdiction of  
24                  one or more local governments;

1                   “(B) the boundary of the area is contin-  
2                   uous; and

3                   “(C) the area—

4                   “(i) has a population, of at least—

5                   “(I) 4,000 if any portion of such  
6                   area (other than a rural area de-  
7                   scribed in subsection (a)(2)(B)(i)) is  
8                   located within a metropolitan statis-  
9                   tical area (within the meaning of sec-  
10                  tion 143(k)(2)(B)) which has a popu-  
11                  lation of 50,000 or greater; or

12                  “(II) 1,000 in any other case; or

13                  “(ii) is entirely within an Indian res-  
14                  ervation (as determined by the Secretary of  
15                  the Interior).

16                  “(3) ELIGIBILITY REQUIREMENTS.—A nomi-  
17                  nated area meets the requirements of this paragraph  
18                  if the State and the local governments in which it  
19                  is located certify (and the Secretary of Housing and  
20                  Urban Development, after such review of supporting  
21                  data as he deems appropriate, accepts such certifi-  
22                  cation) that—

23                  “(A) the area is one of pervasive poverty,  
24                  unemployment, and general distress;

1           “(B) the unemployment rate in the area,  
2           as determined by the most recent available  
3           data, was at least 1½ times the national unem-  
4           ployment rate for the period to which such data  
5           relate;

6           “(C) the poverty rate for each population  
7           census tract within the nominated area is at  
8           least 20 percent; and

9           “(D) in the case of an urban area, at least  
10          70 percent of the households living in the area  
11          have incomes below 80 percent of the median  
12          income of households within the jurisdiction of  
13          the local government (determined in the same  
14          manner as under section 119(b)(2) of the  
15          Housing and Community Development Act of  
16          1974).

17          “(4) CONSIDERATION OF HIGH INCIDENCE OF  
18          CRIME.—The Secretary of Housing and Urban De-  
19          velopment shall take into account, in selecting nomi-  
20          nated areas for designation as renewal communities  
21          under this section, the extent to which such areas  
22          have a high incidence of crime.

23          “(5) CONSIDERATION OF COMMUNITIES IDENTI-  
24          FIED IN GAO STUDY.—The Secretary of Housing  
25          and Urban Development shall take into account, in

1 selecting nominated areas for designation as renewal  
2 communities under this section, if the area has cen-  
3 sus tracts identified in the May 12, 1998, report of  
4 the Government Accounting Office regarding the  
5 identification of economically distressed areas.

6 “(d) REQUIRED STATE AND LOCAL COMMIT-  
7 MENTS.—

8 “(1) IN GENERAL.—The Secretary of Housing  
9 and Urban Development may designate any nomi-  
10 nated area as a renewal community under subsection  
11 (a) only if—

12 “(A) the local government and the State in  
13 which the area is located agree in writing that,  
14 during any period during which the area is a  
15 renewal community, such governments will fol-  
16 low a specified course of action which meets the  
17 requirements of paragraph (2) and is designed  
18 to reduce the various burdens borne by employ-  
19 ers or employees in such area; and

20 “(B) the economic growth promotion re-  
21 quirements of paragraph (3) are met.

22 “(2) COURSE OF ACTION.—

23 “(A) IN GENERAL.—A course of action  
24 meets the requirements of this paragraph if  
25 such course of action is a written document,

1 signed by a State (or local government) and  
2 neighborhood organizations, which evidences a  
3 partnership between such State or government  
4 and community-based organizations and which  
5 commits each signatory to specific and measur-  
6 able goals, actions, and timetables. Such course  
7 of action shall include at least five of the fol-  
8 lowing:

9 “(i) A reduction of tax rates or fees  
10 applying within the renewal community.

11 “(ii) An increase in the level of effi-  
12 ciency of local services within the renewal  
13 community.

14 “(iii) Crime reduction strategies, such  
15 as crime prevention (including the provi-  
16 sion of such services by nongovernmental  
17 entities).

18 “(iv) Actions to reduce, remove, sim-  
19 plify, or streamline governmental require-  
20 ments applying within the renewal commu-  
21 nity.

22 “(v) Involvement in the program by  
23 private entities, organizations, neighbor-  
24 hood organizations, and community  
25 groups, particularly those in the renewal

1 community, including a commitment from  
2 such private entities to provide jobs and  
3 job training for, and technical, financial, or  
4 other assistance to, employers, employees,  
5 and residents from the renewal community.

6 “(vi) State or local income tax bene-  
7 fits for fees paid for services performed by  
8 a nongovernmental entity which were for-  
9 merly performed by a governmental entity.

10 “(vii) The gift (or sale at below fair  
11 market value) of surplus real property  
12 (such as land, homes, and commercial or  
13 industrial structures) in the renewal com-  
14 munity to neighborhood organizations,  
15 community development corporations, or  
16 private companies.

17 “(B) RECOGNITION OF PAST EFFORTS.—

18 For purposes of this section, in evaluating the  
19 course of action agreed to by any State or local  
20 government, the Secretary of Housing and  
21 Urban Development shall take into account the  
22 past efforts of such State or local government  
23 in reducing the various burdens borne by em-  
24 ployers and employees in the area involved.



1           “(3) ECONOMIC GROWTH PROMOTION REQUIRE-  
2           MENTS.—The economic growth promotion require-  
3           ments of this paragraph are met with respect to a  
4           nominated area if the local government and the  
5           State in which such area is located certify in writing  
6           that such government and State, respectively, have  
7           repealed or otherwise will not enforce within the  
8           area, if such area is designated as a renewal  
9           community—

10           “(A) licensing requirements for occupa-  
11           tions that do not ordinarily require a profes-  
12           sional degree;

13           “(B) zoning restrictions on home-based  
14           businesses which do not create a public nui-  
15           sance;

16           “(C) permit requirements for street ven-  
17           dors who do not create a public nuisance;

18           “(D) zoning or other restrictions that im-  
19           pede the formation of schools or child care cen-  
20           ters; and

21           “(E) franchises or other restrictions on  
22           competition for businesses providing public  
23           services, including but not limited to taxicabs,  
24           jitneys, cable television, or trash hauling,

1       except to the extent that such regulation of busi-  
2       nesses and occupations is necessary for and well-tai-  
3       lored to the protection of health and safety.

4       “(e) COORDINATION WITH TREATMENT OF EM-  
5       POWERMENT ZONES AND ENTERPRISE COMMUNITIES.—

6       For purposes of this title, if there are in effect with respect  
7       to the same area both—

8               “(1) a designation as a renewal community; and

9               “(2) a designation as an empowerment zone or  
10       enterprise community,

11       both of such designations shall be given full effect with  
12       respect to such area.

13       “(f) DEFINITIONS AND SPECIAL RULES.—For pur-  
14       poses of this subchapter—

15               “(1) GOVERNMENTS.—If more than one govern-  
16       ment seeks to nominate an area as a renewal com-  
17       munity, any reference to, or requirement of, this sec-  
18       tion shall apply to all such governments.

19               “(2) STATE.—The term ‘State’ includes Puerto  
20       Rico, the Virgin Islands of the United States, Guam,  
21       American Samoa, the Northern Mariana Islands,  
22       and any other possession of the United States.

23               “(3) LOCAL GOVERNMENT.—The term ‘local  
24       government’ means—

1                   “(A) any county, city, town, township, par-  
2                   ish, village, or other general purpose political  
3                   subdivision of a State;

4 “(B) any combination of political subdivi-  
5 sions described in subparagraph (A) recognized  
6 by the Secretary of Housing and Urban Devel-  
7 opment; and

8 “(C) the District of Columbia.

9 “(4) APPLICATION OF RULES RELATING TO  
10 CENSUS TRACTS AND CENSUS DATA.—The rules of  
11 sections 1392(b)(4) and 1393(a)(9) shall apply.

12 **“PART II—RENEWAL COMMUNITY CAPITAL GAIN;**  
13 **RENEWAL COMMUNITY BUSINESS**

“Sec. 1400F. Renewal community capital gain.

“Sec. 1400G. Renewal community business defined.

14 **“SEC. 1400F. RENEWAL COMMUNITY CAPITAL GAIN.**

15       “(a) GENERAL RULE.—Gross income does not in-  
16 clude any qualified capital gain recognized on the sale or  
17 exchange of a qualified community asset held for more  
18 than 5 years.

19       “(b) QUALIFIED COMMUNITY ASSET.—For purposes  
20 of this section—

21 “(1) IN GENERAL.—The term ‘qualified com-  
22 munity asset’ means—

23 “(A) any qualified community stock;

1           “(B) any qualified community partnership  
2           interest; and

3           “(C) any qualified community business  
4           property.

5           “(2) QUALIFIED COMMUNITY STOCK.—

6           “(A) IN GENERAL.—Except as provided in  
7           subparagraph (B), the term ‘qualified commu-  
8           nity stock’ means any stock in a domestic cor-  
9           poration if—

10           “(i) such stock is acquired by the tax-  
11           payer after December 31, 2000, and before  
12           January 1, 2008, at its original issue (di-  
13           rectly or through an underwriter) from the  
14           corporation solely in exchange for cash;

15           “(ii) as of the time such stock was  
16           issued, such corporation was a renewal  
17           community business (or, in the case of a  
18           new corporation, such corporation was  
19           being organized for purposes of being a re-  
20           newal community business); and

21           “(iii) during substantially all of the  
22           taxpayer’s holding period for such stock,  
23           such corporation qualified as a renewal  
24           community business.

1                   “(B) REDEMPTIONS.—A rule similar to  
2                   the rule of section 1202(c)(3) shall apply for  
3                   purposes of this paragraph.

4                   “(3) QUALIFIED COMMUNITY PARTNERSHIP IN-  
5                   TEREST.—The term ‘qualified community partner-  
6                   ship interest’ means any capital or profits interest in  
7                   a domestic partnership if—

8                   “(A) such interest is acquired by the tax-  
9                   payer after December 31, 2000, and before  
10                  January 1, 2008;

11                  “(B) as of the time such interest was ac-  
12                  quired, such partnership was a renewal commu-  
13                  nity business (or, in the case of a new partner-  
14                  ship, such partnership was being organized for  
15                  purposes of being a renewal community busi-  
16                  ness); and

17                  “(C) during substantially all of the tax-  
18                  payer’s holding period for such interest, such  
19                  partnership qualified as a renewal community  
20                  business.

21                  A rule similar to the rule of paragraph (2)(B) shall  
22                  apply for purposes of this paragraph.

23                  “(4) QUALIFIED COMMUNITY BUSINESS PROP-  
24                  ERTY.—

1           “(A) IN GENERAL.—The term ‘qualified  
2           community business property’ means tangible  
3           property if—

4                   “(i) such property was acquired by  
5                   the taxpayer by purchase (as defined in  
6                   section 179(d)(2)) after December 31,  
7                   2000, and before January 1, 2008;

8                   “(ii) the original use of such property  
9                   in the renewal community commences with  
10                  the taxpayer; and

11                  “(iii) during substantially all of the  
12                  taxpayer’s holding period for such prop-  
13                  erty, substantially all of the use of such  
14                  property was in a renewal community busi-  
15                  ness of the taxpayer.

16           “(B) SPECIAL RULE FOR SUBSTANTIAL IM-  
17           PROVEMENTS.—The requirements of clauses (i)  
18           and (ii) of subparagraph (A) shall be treated as  
19           satisfied with respect to—

20                   “(i) property which is substantially  
21                   improved (within the meaning of section  
22                   1400B(b)(4)(B)(ii)) by the taxpayer before  
23                   January 1, 2008; and

24                   “(ii) any land on which such property  
25                   is located.

1 “(c) CERTAIN RULES TO APPLY.—Rules similar to  
2 the rules of paragraphs (5), (6), and (7) of subsection (b),  
3 and subsections (e), (f), and (g), of section 1400B shall  
4 apply for purposes of this section.

5 **“SEC. 1400G. RENEWAL COMMUNITY BUSINESS DEFINED.**

6 “For purposes of this part, the term ‘renewal commu-  
7 nity business’ means any entity or proprietorship which  
8 would be a qualified business entity or qualified propri-  
9 etorship under section 1397B if—

10 “(1) references to renewal communities were  
11 substituted for references to empowerment zones in  
12 such section; and

13 “(2) ‘80 percent’ were substituted for ‘50 per-  
14 cent’ in subsections (b)(2) and (c)(1) of such sec-  
15 tion.

16 **“PART III—FAMILY DEVELOPMENT ACCOUNTS**

“Sec. 1400H. Family development accounts for renewal commu-  
nity EITC recipients.

“Sec. 1400I. Demonstration program to provide matching con-  
tributions to family development accounts in certain  
renewal communities.

“Sec. 1400J. Designation of earned income tax credit payments  
for deposit to family development account.

17 **“SEC. 1400H. FAMILY DEVELOPMENT ACCOUNTS FOR RE-**  
18 **NEWAL COMMUNITY EITC RECIPIENTS.**

19 “(a) ALLOWANCE OF DEDUCTION.—

20 “(1) IN GENERAL.—There shall be allowed as a  
21 deduction—

1                   “(A) in the case of a qualified individual,  
2                   the amount paid in cash for the taxable year by  
3                   such individual to any family development ac-  
4                   count for such individual’s benefit; and

“(B) in the case of any person other than a qualified individual, the amount paid in cash for the taxable year by such person to any family development account for the benefit of a qualified individual but only if the amount so paid is designated for purposes of this section by such individual.

No deduction shall be allowed under this paragraph for any amount deposited in a family development account under section 1400I (relating to demonstration program to provide matching amounts in renewal communities).

17 “(2) LIMITATION.—

18                   “(A) IN GENERAL.—The amount allowable  
19                   as a deduction to any individual for any taxable  
20                   year by reason of paragraph (1)(A) shall not  
21                   exceed the lesser of—

22 “(i) \$2,000, or

23 “(ii) an amount equal to the com-  
24 pensation includible in the individual’s  
25 gross income for such taxable year.



1                   “(B) PERSONS DONATING TO FAMILY DE-  
2                   VELOPMENT ACCOUNTS OF OTHERS.—The  
3                   amount which may be designated under para-  
4                   graph (1)(B) by any qualified individual for any  
5                   taxable year of such individual shall not exceed  
6                   \$1,000.

7                   “(3) SPECIAL RULES FOR CERTAIN MARRIED  
8                   INDIVIDUALS.—Rules similar to rules of section  
9                   219(c) shall apply to the limitation in paragraph  
10                  (2)(A).

11                  “(4) COORDINATION WITH IRAS.—No deduction  
12                  shall be allowed under this section for any taxable  
13                  year to any person by reason of a payment to an ac-  
14                  count for the benefit of a qualified individual if any  
15                  amount is paid for such taxable year into an indi-  
16                  vidual retirement account (including a Roth IRA)  
17                  for the benefit of such individual.

18                  “(5) ROLLOVERS.—No deduction shall be al-  
19                  lowed under this section with respect to any rollover  
20                  contribution.

21                  “(b) TAX TREATMENT OF DISTRIBUTIONS.—

22                  “(1) INCLUSION OF AMOUNTS IN GROSS IN-  
23                  COME.—Except as otherwise provided in this sub-  
24                  section, any amount paid or distributed out of a  
25                  family development account shall be included in

1 gross income by the payee or distributee, as the case  
2 may be.

3 “(2) EXCLUSION OF QUALIFIED FAMILY DEVELOPMENT  
4 DISTRIBUTIONS.—Paragraph (1) shall not  
5 apply to any qualified family development distribu-  
6 tion.

7 “(c) QUALIFIED FAMILY DEVELOPMENT DISTRIBUTION.—For purposes of this section—

9 “(1) IN GENERAL.—The term ‘qualified family  
10 development distribution’ means any amount paid or  
11 distributed out of a family development account  
12 which would otherwise be includible in gross income,  
13 to the extent that such payment or distribution is  
14 used exclusively to pay qualified family development  
15 expenses for the holder of the account or the spouse  
16 or dependent (as defined in section 152) of such  
17 holder.

18 “(2) QUALIFIED FAMILY DEVELOPMENT EXPENSES.—The term ‘qualified family development  
19 expenses’ means any of the following:

21 “(A) Qualified higher education expenses.

22 “(B) Qualified first-time homebuyer costs.

23 “(C) Qualified business capitalization  
24 costs.

25 “(D) Qualified medical expenses.

1 “(E) Qualified rollovers.

2 “(3) QUALIFIED HIGHER EDUCATION EX-  
3 PENSES.—

4 “(A) IN GENERAL.—The term ‘qualified  
5 higher education expenses’ has the meaning  
6 given such term by section 72(t)(7), determined  
7 by treating postsecondary vocational edu-  
8 cational schools as eligible educational institu-  
9 tions.

10 “(B) POSTSECONDARY VOCATIONAL EDU-  
11 CATION SCHOOL.—The term ‘postsecondary vo-  
12 cational educational school’ means an area vo-  
13 cational education school (as defined in sub-  
14 paragraph (C) or (D) of section 521(4) of the  
15 Carl D. Perkins Vocational and Applied Tech-  
16 nology Education Act (20 U.S.C. 2471(4)))  
17 which is in any State (as defined in section  
18 521(33) of such Act), as such sections are in  
19 effect on the date of the enactment of this sec-  
20 tion.

21 “(C) COORDINATION WITH OTHER BENE-  
22 FITS.—The amount of qualified higher edu-  
23 cation expenses for any taxable year shall be re-  
24 duced as provided in section 25A(g)(2).

1           “(4) QUALIFIED FIRST-TIME HOMEBUYER  
2 COSTS.—The term ‘qualified first-time homebuyer  
3 costs’ means qualified acquisition costs (as defined  
4 in section 72(t)(8) without regard to subparagraph  
5 (B) thereof) with respect to a principal residence  
6 (within the meaning of section 121) for a qualified  
7 first-time homebuyer (as defined in section  
8 72(t)(8)).

9           “(5) QUALIFIED BUSINESS CAPITALIZATION  
10 COSTS.—

11           “(A) IN GENERAL.—The term ‘qualified  
12 business capitalization costs’ means qualified  
13 expenditures for the capitalization of a qualified  
14 business pursuant to a qualified plan.

15           “(B) QUALIFIED EXPENDITURES.—The  
16 term ‘qualified expenditures’ means expendi-  
17 tures included in a qualified plan, including  
18 capital, plant, equipment, working capital, and  
19 inventory expenses.

20           “(C) QUALIFIED BUSINESS.—The term  
21 ‘qualified business’ means any trade or business  
22 other than any trade or business—

23           “(i) which consists of the operation of  
24 any facility described in section  
25 144(c)(6)(B), or

1 “(ii) which contravenes any law.

2 “(D) QUALIFIED PLAN.—The term ‘quali-  
3 fied plan’ means a business plan which meets  
4 such requirements as the Secretary may specify.

5 “(6) QUALIFIED MEDICAL EXPENSES.—The  
6 term ‘qualified medical expenses’ means any amount  
7 paid during the taxable year, not compensated for by  
8 insurance or otherwise, for medical care (as defined  
9 in section 213(d)) of the taxpayer, his spouse, or his  
10 dependent (as defined in section 152).

11 “(7) QUALIFIED ROLLOVERS.—The term ‘quali-  
12 fied rollover’ means any amount paid from a family  
13 development account of a taxpayer into another such  
14 account established for the benefit of—

15 “(A) such taxpayer, or

16 “(B) any qualified individual who is—

17 “(i) the spouse of such taxpayer, or

18 “(ii) any dependent (as defined in sec-  
19 tion 152) of the taxpayer.

20 Rules similar to the rules of section 408(d)(3) shall  
21 apply for purposes of this paragraph.

22 “(d) TAX TREATMENT OF ACCOUNTS.—

23 “(1) IN GENERAL.—Any family development ac-  
24 count is exempt from taxation under this subtitle  
25 unless such account has ceased to be a family devel-

1        opment account by reason of paragraph (2). Not-  
2        withstanding the preceding sentence, any such ac-  
3        count is subject to the taxes imposed by section 511  
4        (relating to imposition of tax on unrelated business  
5        income of charitable, etc., organizations). Notwith-  
6        standing any other provision of this title (including  
7        chapters 11 and 12), the basis of any person in such  
8        an account is zero.

9            “(2) LOSS OF EXEMPTION IN CASE OF PROHIB-  
10        ITED TRANSACTIONS.—For purposes of this section,  
11        rules similar to the rules of section 408(e) shall  
12        apply.

13           “(3) OTHER RULES TO APPLY.—Rules similar  
14        to the rules of paragraphs (4), (5), and (6) of sec-  
15        tion 408(d) shall apply for purposes of this section.

16        “(e) FAMILY DEVELOPMENT ACCOUNT.—For pur-  
17        poses of this title, the term ‘family development account’  
18        means a trust created or organized in the United States  
19        for the exclusive benefit of a qualified individual or his  
20        beneficiaries, but only if the written governing instrument  
21        creating the trust meets the following requirements:

22            “(1) Except in the case of a qualified rollover  
23        (as defined in subsection (c)(7))—

24            “(A) no contribution will be accepted un-  
25        less it is in cash; and

1           “(B) contributions will not be accepted for  
2           the taxable year in excess of \$3,000 (deter-  
3           mined without regard to any contribution made  
4           under section 1400I (relating to demonstration  
5           program to provide matching amounts in re-  
6           newal communities)).

7           “(2) The requirements of paragraphs (2)  
8           through (6) of section 408(a) are met.

9           “(f) QUALIFIED INDIVIDUAL.—For purposes of this  
10          section, the term ‘qualified individual’ means, for any tax-  
11          able year, an individual—

12           “(1) who is a bona fide resident of a renewal  
13          community throughout the taxable year; and

14           “(2) to whom a credit was allowed under sec-  
15          tion 32 for the preceding taxable year.

16          “(g) OTHER DEFINITIONS AND SPECIAL RULES.—

17           “(1) COMPENSATION.—The term ‘compensa-  
18          tion’ has the meaning given such term by section  
19          219(f)(1).

20           “(2) MARRIED INDIVIDUALS.—The maximum  
21          deduction under subsection (a) shall be computed  
22          separately for each individual, and this section shall  
23          be applied without regard to any community prop-  
24          erty laws.

1           “(3) TIME WHEN CONTRIBUTIONS DEEMED  
2       MADE.—For purposes of this section, a taxpayer  
3       shall be deemed to have made a contribution to a  
4       family development account on the last day of the  
5       preceding taxable year if the contribution is made on  
6       account of such taxable year and is made not later  
7       than the time prescribed by law for filing the return  
8       for such taxable year (not including extensions  
9       thereof).

10           “(4) EMPLOYER PAYMENTS; CUSTODIAL AC-  
11       COUNTS.—Rules similar to the rules of sections  
12       219(f)(5) and 408(h) shall apply for purposes of this  
13       section.

14           “(5) REPORTS.—The trustee of a family devel-  
15       opment account shall make such reports regarding  
16       such account to the Secretary and to the individual  
17       for whom the account is maintained with respect to  
18       contributions (and the years to which they relate),  
19       distributions, and such other matters as the Sec-  
20       retary may require under regulations. The reports  
21       required by this paragraph—

22           “(A) shall be filed at such time and in  
23       such manner as the Secretary prescribes in  
24       such regulations; and

25           “(B) shall be furnished to individuals—



1                   “(i) not later than January 31 of the  
2                   calendar year following the calendar year  
3                   to which such reports relate; and

4                   “(ii) in such manner as the Secretary  
5                   prescribes in such regulations.

6                   “(6) INVESTMENT IN COLLECTIBLES TREATED  
7                   AS DISTRIBUTIONS.—Rules similar to the rules of  
8                   section 408(m) shall apply for purposes of this sec-  
9                   tion.

10                  “(h) PENALTY FOR DISTRIBUTIONS NOT USED FOR  
11                  QUALIFIED FAMILY DEVELOPMENT EXPENSES.—

12                  “(1) IN GENERAL.—If any amount is distrib-  
13                  uted from a family development account and is not  
14                  used exclusively to pay qualified family development  
15                  expenses for the holder of the account or the spouse  
16                  or dependent (as defined in section 152) of such  
17                  holder, the tax imposed by this chapter for the tax-  
18                  able year of such distribution shall be increased by  
19                  the sum of—

20                  “(A) 100 percent of the portion of such  
21                  amount which is includible in gross income and  
22                  is attributable to amounts contributed under  
23                  section 1400I (relating to demonstration pro-  
24                  gram to provide matching amounts in renewal  
25                  communities); and

1                   “(B) 10 percent of the portion of such  
2                   amount which is includible in gross income and  
3                   is not described in subparagraph (A).

4           For purposes of this subsection, distributions which  
5           are includable in gross income shall be treated as at-  
6           tributable to amounts contributed under section  
7           1400I to the extent thereof. For purposes of the pre-  
8           ceding sentence, all family development accounts of  
9           an individual shall be treated as one account.

10           “(2) EXCEPTION FOR CERTAIN DISTRIBUTIONS.—Paragraph (1) shall not apply to distribu-  
11           tions which are—  
12           

13                   “(A) made on or after the date on which  
14                   the account holder attains age 59½,

15                   “(B) made to a beneficiary (or the estate  
16                   of the account holder) on or after the death of  
17                   the account holder, or

18                   “(C) attributable to the account holder’s  
19                   being disabled within the meaning of section  
20                   72(m)(7).

21           “(i) APPLICATION OF SECTION.—This section shall  
22           apply to amounts paid to a family development account  
23           for any taxable year beginning after December 31, 2000,  
24           and before January 1, 2008.

1   **“SEC. 1400I. DEMONSTRATION PROGRAM TO PROVIDE**  
2                   **MATCHING CONTRIBUTIONS TO FAMILY DE-**  
3                   **VELOPMENT ACCOUNTS IN CERTAIN RE-**  
4                   **NEWAL COMMUNITIES.**

5       “(a) DESIGNATION.—

6           “(1) DEFINITIONS.—For purposes of this sec-  
7       tion, the term ‘FDA matching demonstration area’  
8       means any renewal community—

9           “(A) which is nominated under this section  
10       by each of the local governments and States  
11       which nominated such community for designa-  
12       tion as a renewal community under section  
13       1400E(a)(1)(A); and

14       “(B) which the Secretary of Housing and  
15       Urban Development designates as an FDA  
16       matching demonstration area after consultation  
17       with—

18           “(i) the Secretaries of Agriculture,  
19       Commerce, Labor, and the Treasury, the  
20       Director of the Office of Management and  
21       Budget, and the Administrator of the  
22       Small Business Administration; and

23           “(ii) in the case of a community on an  
24       Indian reservation, the Secretary of the In-  
25       terior.

26       “(2) NUMBER OF DESIGNATIONS.—

1           “(A) IN GENERAL.—The Secretary of  
2           Housing and Urban Development may des-  
3           ignate not more than 5 renewal communities as  
4           FDA matching demonstration areas.

5           “(B) MINIMUM DESIGNATION IN RURAL  
6           AREAS.—Of the areas designated under sub-  
7           paragraph (A), at least 2 must be areas de-  
8           scribed in section 1400E(a)(2)(B).

9           “(3) LIMITATIONS ON DESIGNATIONS.—

10           “(A) PUBLICATION OF REGULATIONS.—  
11           The Secretary of Housing and Urban Develop-  
12           ment shall prescribe by regulation no later than  
13           4 months after the date of the enactment of  
14           this section, after consultation with the officials  
15           described in paragraph (1)(B)—

16           “(i) the procedures for nominating a  
17           renewal community under paragraph  
18           (1)(A) (including procedures for coordi-  
19           nating such nomination with the nomina-  
20           tion of an area for designation as a re-  
21           newal community under section 1400E);  
22           and

23           “(ii) the manner in which nominated  
24           renewal communities will be evaluated for  
25           purposes of this section.

1                   “(B) TIME LIMITATIONS.—The Secretary  
2                   of Housing and Urban Development may des-  
3                   ignate renewal communities as FDA matching  
4                   demonstration areas only during the 24-month  
5                   period beginning on the first day of the first  
6                   month following the month in which the regula-  
7                   tions described in subparagraph (A) are pre-  
8                   scribed.

9                   “(4) DESIGNATION BASED ON DEGREE OF POV-  
10                  ERTY, ETC.—The rules of section 1400E(a)(3) shall  
11                  apply for purposes of designations of FDA matching  
12                  demonstration areas under this section.

13                  “(b) PERIOD FOR WHICH DESIGNATION IS IN EF-  
14                  FECT.—Any designation of a renewal community as an  
15                  FDA matching demonstration area shall remain in effect  
16                  during the period beginning on the date of such designa-  
17                  tion and ending on the date on which such area ceases  
18                  to be a renewal community.

19                  “(c) MATCHING CONTRIBUTIONS TO FAMILY DEVEL-  
20                  OPMENT ACCOUNTS.—

21                  “(1) IN GENERAL.—Not less than once each  
22                  taxable year, the Secretary shall deposit (to the ex-  
23                  tent provided in appropriation Acts) into a family  
24                  development account of each qualified individual (as  
25                  defined in section 1400H(f))—

1           “(A) who is a resident throughout the tax-  
2           able year of an FDA matching demonstration  
3           area; and

4           “(B) who requests (in such form and man-  
5           ner as the Secretary prescribes) such deposit  
6           for the taxable year,  
7           an amount equal to the sum of the amounts depos-  
8           ited into all of the family development accounts of  
9           such individual during such taxable year (determined  
10          without regard to any amount contributed under this  
11          section).

12          “(2) LIMITATIONS.—

13               “(A) ANNUAL LIMIT.—The Secretary shall  
14               not deposit more than \$1000 under paragraph  
15               (1) with respect to any individual for any tax-  
16               able year.

17               “(B) AGGREGATE LIMIT.—The Secretary  
18               shall not deposit more than \$2000 under para-  
19               graph (1) with respect to any individual for all  
20               taxable years.

21          “(3) EXCLUSION FROM INCOME.—Except as  
22          provided in section 1400H, gross income shall not  
23          include any amount deposited into a family develop-  
24          ment account under paragraph (1).

1       “(d) NOTICE OF PROGRAM.—The Secretary shall  
2 provide appropriate notice to residents of FDA matching  
3 demonstration areas of the availability of the benefits  
4 under this section.

5       “(e) TERMINATION.—No amount may be deposited  
6 under this section for any taxable year beginning after De-  
7 cember 31, 2007.

8       **“SEC. 1400J. DESIGNATION OF EARNED INCOME TAX CRED-**  
9                   **IT PAYMENTS FOR DEPOSIT TO FAMILY DE-**  
10                  **VELOPMENT ACCOUNT.**

11       “(a) IN GENERAL.—With respect to the return of any  
12 qualified individual (as defined in section 1400H(f)) for  
13 the taxable year of the tax imposed by this chapter, such  
14 individual may designate that a specified portion (not less  
15 than \$1) of any overpayment of tax for such taxable year  
16 which is attributable to the earned income tax credit shall  
17 be deposited by the Secretary into a family development  
18 account of such individual. The Secretary shall so deposit  
19 such portion designated under this subsection.

20       “(b) MANNER AND TIME OF DESIGNATION.—A des-  
21 ignation under subsection (a) may be made with respect  
22 to any taxable year—

23               “(1) at the time of filing the return of the tax  
24 imposed by this chapter for such taxable year, or

1           “(2) at any other time (after the time of filing  
2           the return of the tax imposed by this chapter for  
3           such taxable year) specified in regulations prescribed  
4           by the Secretary.

5   Such designation shall be made in such manner as the  
6   Secretary prescribes by regulations.

7           “(c) PORTION ATTRIBUTABLE TO EARNED INCOME  
8   TAX CREDIT.—For purposes of subsection (a), an over-  
9   payment for any taxable year shall be treated as attrib-  
10   utable to the earned income tax credit to the extent that  
11   such overpayment does not exceed the credit allowed to  
12   the taxpayer under section 32 for such taxable year.

13          “(d) OVERPAYMENTS TREATED AS REFUNDED.—  
14   For purposes of this title, any portion of an overpayment  
15   of tax designated under subsection (a) shall be treated as  
16   being refunded to the taxpayer as of the last date pre-  
17   scribed for filing the return of tax imposed by this chapter  
18   (determined without regard to extensions) or, if later, the  
19   date the return is filed.

20          “(e) TERMINATION.—This section shall not apply to  
21   any taxable year beginning after December 31, 2007.

22           **“PART IV—ADDITIONAL INCENTIVES**

“Sec. 1400K. Commercial revitalization deduction.

“Sec. 1400L. Increase in expensing under section 179.



1 **“SEC. 1400K. COMMERCIAL REVITALIZATION DEDUCTION.**

2 “(a) GENERAL RULE.—At the election of the tax-  
3 payer, either—

4 “(1) one-half of any qualified revitalization ex-  
5 penditures chargeable to capital account with respect  
6 to any qualified revitalization building shall be allow-  
7 able as a deduction for the taxable year in which the  
8 building is placed in service, or

9 “(2) a deduction for all such expenditures shall  
10 be allowable ratably over the 120-month period be-  
11 ginning with the month in which the building is  
12 placed in service.

13 The deduction provided by this section with respect to  
14 such expenditure shall be in lieu of any depreciation de-  
15 duction otherwise allowable on account of such expendi-  
16 ture.

17 “(b) QUALIFIED REVITALIZATION BUILDINGS AND  
18 EXPENDITURES.—For purposes of this section—

19 “(1) QUALIFIED REVITALIZATION BUILDING.—  
20 The term ‘qualified revitalization building’ means  
21 any building (and its structural components) if—

22 “(A) such building is located in a renewal  
23 community and is placed in service after De-  
24 cember 31, 2000;

1           “(B) a commercial revitalization deduction  
2           amount is allocated to the building under sub-  
3           section (d); and

4           “(C) depreciation (or amortization in lieu  
5           of depreciation) is allowable with respect to the  
6           building (without regard to this section).

7           “(2) QUALIFIED REVITALIZATION EXPENDI-  
8           TURE.—

9           “(A) IN GENERAL.—The term ‘qualified  
10          revitalization expenditure’ means any amount  
11          properly chargeable to capital account—

12           “(i) for property for which deprecia-  
13          tion is allowable under section 168 (with-  
14          out regard to this section) and which is—

15                   “(I) nonresidential real property;  
16                   or

17                   “(II) an addition or improvement  
18                  to property described in subclause (I);

19           “(ii) in connection with the construc-  
20          tion of any qualified revitalization building  
21          which was not previously placed in service  
22          or in connection with the substantial reha-  
23          bilitation (within the meaning of section  
24          47(c)(1)(C)) of a building which was

1 placed in service before the beginning of  
2 such rehabilitation; and

3 “(iii) for land (including land which is  
4 functionally related to such property and  
5 subordinate thereto).

6 “(B) DOLLAR LIMITATION.—The aggre-  
7 gate amount which may be treated as qualified  
8 revitalization expenditures with respect to any  
9 qualified revitalization building for any taxable  
10 year shall not exceed the excess of—

11 “(i) \$10,000,000, reduced by

12 “(ii) any such expenditures with re-  
13 spect to the building taken into account by  
14 the taxpayer or any predecessor in deter-  
15 mining the amount of the deduction under  
16 this section for all preceding taxable years.

17 “(C) CERTAIN EXPENDITURES NOT IN-  
18 CLUDED.—The term ‘qualified revitalization ex-  
19 penditure’ does not include—

20 “(i) ACQUISITION COSTS.—The costs  
21 of acquiring any building or interest there-  
22 in and any land in connection with such  
23 building to the extent that such costs ex-  
24 ceed 30 percent of the qualified revitaliza-

1                   tion expenditures determined without re-  
2                   gard to this clause.

3                   “(ii) CREDITS.—Any expenditure  
4                   which the taxpayer may take into account  
5                   in computing any credit allowable under  
6                   this title unless the taxpayer elects to take  
7                   the expenditure into account only for pur-  
8                   poses of this section.

9           “(c) WHEN EXPENDITURES TAKEN INTO AC-  
10 COUNT.—Qualified revitalization expenditures with re-  
11 spect to any qualified revitalization building shall be taken  
12 into account for the taxable year in which the qualified  
13 revitalization building is placed in service. For purposes  
14 of the preceding sentence, a substantial rehabilitation of  
15 a building shall be treated as a separate building.

16           “(d) LIMITATION ON AGGREGATE DEDUCTIONS AL-  
17 LOWABLE WITH RESPECT TO BUILDINGS LOCATED IN A  
18 STATE.—

19           “(1) IN GENERAL.—The amount of the deduc-  
20 tion determined under this section for any taxable  
21 year with respect to any building shall not exceed  
22 the commercial revitalization deduction amount (in  
23 the case of an amount determined under subsection  
24 (a)(2), the present value of such amount as deter-  
25 mined under the rules of section 42(b)(2)(C) by sub-

1       stituting ‘100 percent’ for ‘72 percent’ in clause (ii)  
2       thereof) allocated to such building under this sub-  
3       section by the commercial revitalization agency.  
4       Such allocation shall be made at the same time and  
5       in the same manner as under paragraphs (1) and  
6       (7) of section 42(h).

7               “(2) COMMERCIAL REVITALIZATION DEDUCTION  
8       AMOUNT FOR AGENCIES.—

9               “(A) IN GENERAL.—The aggregate com-  
10       mercial revitalization deduction amount which a  
11       commercial revitalization agency may allocate  
12       for any calendar year is the amount of the  
13       State commercial revitalization deduction ceil-  
14       ing determined under this paragraph for such  
15       calendar year for such agency.

16              “(B) STATE COMMERCIAL REVITALIZATION  
17       DEDUCTION CEILING.—The State commercial  
18       revitalization deduction ceiling applicable to any  
19       State—

20              “(i) for each calendar year after 2000  
21       and before 2008 is \$6,000,000 for each re-  
22       newal community in the State; and

23              “(ii) zero for each calendar year  
24       thereafter.

1                   “(C) COMMERCIAL REVITALIZATION AGEN-  
2                   CY.—For purposes of this section, the term  
3                   ‘commercial revitalization agency’ means any  
4                   agency authorized by a State to carry out this  
5                   section.

6                   “(e) RESPONSIBILITIES OF COMMERCIAL REVITAL-  
7                   IZATION AGENCIES.—

8                   “(1) PLANS FOR ALLOCATION.—Notwith-  
9                   standing any other provision of this section, the  
10                  commercial revitalization deduction amount with re-  
11                  spect to any building shall be zero unless—

12                  “(A) such amount was allocated pursuant  
13                  to a qualified allocation plan of the commercial  
14                  revitalization agency which is approved (in ac-  
15                  cordance with rules similar to the rules of sec-  
16                  tion 147(f)(2) (other than subparagraph (B)(ii)  
17                  thereof)) by the governmental unit of which  
18                  such agency is a part; and

19                  “(B) such agency notifies the chief execu-  
20                  tive officer (or its equivalent) of the local juris-  
21                  diction within which the building is located of  
22                  such allocation and provides such individual a  
23                  reasonable opportunity to comment on the allo-  
24                  cation.

1           “(2) QUALIFIED ALLOCATION PLAN.—For pur-  
2           poses of this subsection, the term ‘qualified alloca-  
3           tion plan’ means any plan—

4                   “(A) which sets forth selection criteria to  
5                   be used to determine priorities of the commer-  
6                   cial revitalization agency which are appropriate  
7                   to local conditions;

8                   “(B) which considers—

9                           “(i) the degree to which a project con-  
10                           tributes to the implementation of a stra-  
11                           tegic plan that is devised for a renewal  
12                           community through a citizen participation  
13                           process;

14                           “(ii) the amount of any increase in  
15                           permanent, full-time employment by reason  
16                           of any project; and

17                           “(iii) the active involvement of resi-  
18                           dents and nonprofit groups within the re-  
19                           newal community; and

20                   “(C) which provides a procedure that the  
21                   agency (or its agent) will follow in monitoring  
22                   compliance with this section.

23           “(f) REGULATIONS.—For purposes of this section,  
24           the Secretary shall, by regulations, provide for the applica-

1 tion of rules similar to the rules of section 49 and sub-  
2 sections (a) and (b) of section 50.

3 “(g) TERMINATION.—This section shall not apply to  
4 any building placed in service after December 31, 2007.

5 **“SEC. 1400L. INCREASE IN EXPENSING UNDER SECTION 179.**

6 “(a) GENERAL RULE.—In the case of a renewal com-  
7 munity business (as defined in section 1400G), for pur-  
8 poses of section 179—

9 “(1) the limitation under section 179(b)(1)  
10 shall be increased by the lesser of—

11 “(A) \$35,000; or

12 “(B) the cost of section 179 property  
13 which is qualified renewal property placed in  
14 service during the taxable year; and

15 “(2) the amount taken into account under sec-  
16 tion 179(b)(2) with respect to any section 179 prop-  
17 erty which is qualified renewal property shall be 50  
18 percent of the cost thereof.

19 “(b) RECAPTURE.—Rules similar to the rules under  
20 section 179(d)(10) shall apply with respect to any quali-  
21 fied renewal property which ceases to be used in a renewal  
22 community by a renewal community business.

23 “(c) QUALIFIED RENEWAL PROPERTY.—For pur-  
24 poses of this section—



1           “(1) IN GENERAL.—The term ‘qualified renewal  
2           property’ means any property to which section 168  
3           applies (or would apply but for section 179) if—

4                   “(A) such property was acquired by the  
5           taxpayer by purchase (as defined in section  
6           179(d)(2)) after December 31, 2000, and be-  
7           fore January 1, 2008; and

8                   “(B) such property would be qualified zone  
9           property (as defined in section 1397C) if ref-  
10          erences to renewal communities were sub-  
11          stituted for references to empowerment zones in  
12          section 1397C.

13           “(2) CERTAIN RULES TO APPLY.—The rules of  
14          subsections (a)(2) and (b) of section 1397C shall  
15          apply for purposes of this section.”.

16 **SEC. 703. EXTENSION OF EXPENSING OF ENVIRONMENTAL**  
17 **REMEDATION COSTS TO RENEWAL COMMU-**  
18 **NITIES.**

19          (a) EXTENSION.—Paragraph (2) of section 198(c)  
20          (defining targeted area) is amended by redesignating sub-  
21          paragraph (C) as subparagraph (D) and by inserting after  
22          subparagraph (B) the following new subparagraph:

23                   “(C) RENEWAL COMMUNITIES IN-  
24          CLUDED.—Except as provided in subparagraph  
25          (B), such term shall include a renewal commu-

1 nity (as defined in section 1400E) with respect  
2 to expenditures paid or incurred after Decem-  
3 ber 31, 2000.”.

(b) EXTENSION OF TERMINATION DATE FOR RE-  
NEWAL COMMUNITIES.—Subsection (h) of section 198 is  
amended by inserting before the period “(December 31,  
2007, in the case of a renewal community, as defined in  
section 1400E).”.

11 (a) EXTENSION.—Subsection (c) of section 51 (relat-  
12 ing to termination) is amended by adding at the end the  
13 following new paragraph:

14 “(5) EXTENSION OF CREDIT FOR RENEWAL  
15 COMMUNITIES.—

16                   “(A) IN GENERAL.—In the case of an indi-  
17                   vidual who begins work for the employer after  
18                   the date contained in paragraph (4)(B), for  
19                   purposes of section 38—

20 “(i) in lieu of applying subsection (a),  
21 the amount of the work opportunity credit  
22 determined under this section for the tax-  
23 able year shall be equal to—

24 “(I) 15 percent of the qualified  
25 first-year wages for such year; and

1 “(II) 30 percent of the qualified  
2 second-year wages for such year;

3 “(ii) subsection (b)(3) shall be applied  
4 by substituting ‘\$10,000’ for ‘\$6,000’;

5 “(iii) paragraph (4)(B) shall be ap-  
6 plied by substituting for the date contained  
7 therein the last day for which the designa-  
8 tion under section 1400E of the renewal  
9 community referred to in subparagraph  
10 (B)(i) is in effect; and

11 “(iv) rules similar to the rules of sec-  
12 tion 51A(b)(5)(C) shall apply.

13 “(B) QUALIFIED FIRST- AND SECOND-  
14 YEAR WAGES.—For purposes of subparagraph  
15 (A)—

16 “(i) IN GENERAL.—The term ‘quali-  
17 fied wages’ means, with respect to each 1-  
18 year period referred to in clause (ii) or  
19 (iii), as the case may be, the wages paid or  
20 incurred by the employer during the tax-  
21 able year to any individual but only if—

22 “(I) the employer is engaged in a  
23 trade or business in a renewal com-  
24 munity throughout such 1-year period;

1                   “(II) the principal place of abode  
2                   of such individual is in such renewal  
3                   community throughout such 1-year  
4                   period; and

5                   “(III) substantially all of the  
6                   services which such individual per-  
7                   forms for the employer during such 1-  
8                   year period are performed in such re-  
9                   newal community.

10                  “(ii)        QUALIFIED        FIRST-YEAR  
11                  WAGES.—The term ‘qualified first-year  
12                  wages’ means, with respect to any indi-  
13                  vidual, qualified wages attributable to serv-  
14                  ice rendered during the 1-year period be-  
15                  ginning with the day the individual begins  
16                  work for the employer.

17                  “(iii)       QUALIFIED        SECOND-YEAR  
18                  WAGES.—The term ‘qualified second-year  
19                  wages’ means, with respect to any indi-  
20                  vidual, qualified wages attributable to serv-  
21                  ice rendered during the 1-year period be-  
22                  ginning on the day after the last day of the  
23                  1-year period with respect to such indi-  
24                  vidual determined under clause (ii).”.

1 (b) CONGRUENT TREATMENT OF RENEWAL COMMU-  
2 NITIES AND ENTERPRISE ZONES FOR PURPOSES OF  
3 YOUTH RESIDENCE REQUIREMENTS.—

4 (1) HIGH-RISK YOUTH.—Subparagraphs (A)(ii)  
5 and (B) of section 51(d)(5) are each amended by  
6 striking “empowerment zone or enterprise commu-  
7 nity” and inserting “empowerment zone, enterprise  
8 community, or renewal community”.

9 (2) QUALIFIED SUMMER YOUTH EMPLOYEE.—  
10 Clause (iv) of section 51(d)(7)(A) is amended by  
11 striking “empowerment zone or enterprise commu-  
12 nity” and inserting “empowerment zone, enterprise  
13 community, or renewal community”.

14 (3) HEADINGS.—Paragraphs (5)(B) and (7)(C)  
15 of section 51(d) are each amended by inserting “OR  
16 COMMUNITY” in the heading after “ZONE”.

17 (4) EFFECTIVE DATE.—The amendments made  
18 by this subsection shall apply to individuals who  
19 begin work for the employer after December 31,  
20 2000.

21 **SEC. 705. CONFORMING AND CLERICAL AMENDMENTS.**

22 (a) DEDUCTION FOR CONTRIBUTIONS TO FAMILY  
23 DEVELOPMENT ACCOUNTS ALLOWABLE WHETHER OR  
24 NOT TAXPAYER ITEMIZES.—Subsection (a) of section 62  
25 (relating to adjusted gross income defined) is amended by

1 inserting after paragraph (18) the following new para-  
2 graph:

3 “(19) FAMILY DEVELOPMENT ACCOUNTS.—The  
4 deduction allowed by section 1400H(a)(1).”.

5 (b) TAX ON EXCESS CONTRIBUTIONS.—

6 (1) TAX IMPOSED.—Subsection (a) of section  
7 4973 is amended by striking “or” at the end of  
8 paragraph (3), adding “or” at the end of paragraph  
9 (4), and inserting after paragraph (4) the following  
10 new paragraph:

11 “(5) a family development account (within the  
12 meaning of section 1400H(e)),”.

13 (2) EXCESS CONTRIBUTIONS.—Section 4973 is  
14 amended by adding at the end the following new  
15 subsection:

16 “(g) FAMILY DEVELOPMENT ACCOUNTS.—For pur-  
17 poses of this section, in the case of family development  
18 accounts, the term ‘excess contributions’ means the sum  
19 of—

20 “(1) the excess (if any) of—

21 “(A) the amount contributed for the tax-  
22 able year to the accounts (other than a quali-  
23 fied rollover, as defined in section 1400H(c)(7),  
24 or a contribution under section 1400I), over

1                   “(B) the amount allowable as a deduction  
2                   under section 1400H for such contributions;  
3                   and

4                   “(2) the amount determined under this sub-  
5                   section for the preceding taxable year reduced by the  
6                   sum of—

7                   “(A) the distributions out of the accounts  
8                   for the taxable year which were included in the  
9                   gross income of the payee under section  
10                  1400H(b)(1);

11                  “(B) the distributions out of the accounts  
12                  for the taxable year to which rules similar to  
13                  the rules of section 408(d)(5) apply by reason  
14                  of section 1400H(d)(3); and

15                  “(C) the excess (if any) of the maximum  
16                  amount allowable as a deduction under section  
17                  1400H for the taxable year over the amount  
18                  contributed to the account for the taxable year  
19                  (other than a contribution under section  
20                  1400I).

21 For purposes of this subsection, any contribution which  
22 is distributed from the family development account in a  
23 distribution to which rules similar to the rules of section  
24 408(d)(4) apply by reason of section 1400H(d)(3) shall  
25 be treated as an amount not contributed.”.

1       (c) TAX ON PROHIBITED TRANSACTIONS.—Section  
2 4975 is amended—

3           (1) by adding at the end of subsection (c) the  
4 following new paragraph:

5           “(6) SPECIAL RULE FOR FAMILY DEVELOP-  
6 MENT ACCOUNTS.—An individual for whose benefit a  
7 family development account is established and any  
8 contributor to such account shall be exempt from the  
9 tax imposed by this section with respect to any  
10 transaction concerning such account (which would  
11 otherwise be taxable under this section) if, with re-  
12 spect to such transaction, the account ceases to be  
13 a family development account by reason of the appli-  
14 cation of section 1400H(d)(2) to such account.”;  
15 and

16           (2) in subsection (e)(1), by striking “or” at the  
17 end of subparagraph (E), by redesignating subpara-  
18 graph (F) as subparagraph (G), and by inserting  
19 after subparagraph (E) the following new subpara-  
20 graph:

21           “(F) a family development account de-  
22 scribed in section 1400H(e), or”.

23       (d) INFORMATION RELATING TO CERTAIN TRUSTS  
24 AND ANNUITY PLANS.—Subsection (c) of section 6047 is  
25 amended—



1 (1) by inserting “or section 1400H” after “sec-  
2 tion 219”; and

3 (2) by inserting “, of any family development  
4 account described in section 1400H(e),” after “sec-  
5 tion 408(a)”.

6 (e) INSPECTION OF APPLICATIONS FOR TAX EXEMP-  
7 TION.—Clause (i) of section 6104(a)(1)(B) is amended by  
8 inserting “a family development account described in sec-  
9 tion 1400H(e),” after “section 408(a),”.

10 (f) FAILURE TO PROVIDE REPORTS ON FAMILY DE-  
11 VELOPMENT ACCOUNTS.—Paragraph (2) of section  
12 6693(a) is amended by striking “and” at the end of sub-  
13 paragraph (C), by striking the period and inserting “,  
14 and” at the end of subparagraph (D), and by adding at  
15 the end the following new subparagraph:

16 “(E) section 1400H(g)(6) (relating to fam-  
17 ily development accounts).”.

18 (g) CONFORMING AMENDMENTS REGARDING COM-  
19 MERCIAL REVITALIZATION DEDUCTION.—

20 (1) Section 172 is amended by redesignating  
21 subsection (j) as subsection (k) and by inserting  
22 after subsection (i) the following new subsection:

23 “(j) NO CARRYBACK OF SECTION 1400K DEDUCTION  
24 BEFORE DATE OF ENACTMENT.—No portion of the net  
25 operating loss for any taxable year which is attributable

1 to any commercial revitalization deduction determined  
2 under section 1400K may be carried back to a taxable  
3 year ending before the date of the enactment of section  
4 1400K.”.

5 (2) Subparagraph (B) of section 48(a)(2) is  
6 amended by inserting “or commercial revitalization”  
7 after “rehabilitation” each place it appears in the  
8 text and heading.

9 (3) Subparagraph (C) of section 469(i)(3) is  
10 amended—

11 (A) by inserting “or section 1400K” after  
12 “section 42”; and

13 (B) by inserting “AND COMMERCIAL REVI-  
14 TALIZATION DEDUCTION” after “CREDIT” in  
15 the heading.

16 (h) CLERICAL AMENDMENTS.—The table of sub-  
17 chapters for chapter 1 is amended by adding at the end  
18 the following new item:

“Subchapter X. Renewal Communities.”.

19 **SEC. 706. EVALUATION AND REPORTING REQUIREMENTS.**

20 Not later than the close of the fourth calendar year  
21 after the year in which the Secretary of Housing and  
22 Urban Development first designates an area as a renewal  
23 community under section 1400E of the Internal Revenue  
24 Code of 1986, and at the close of each fourth calendar  
25 year thereafter, such Secretary shall prepare and submit

1 to the Congress a report on the effects of such designa-  
2 tions in stimulating the creation of new jobs, particularly  
3 for disadvantaged workers and long-term unemployed in-  
4 dividuals, and promoting the revitalization of economically  
5 distressed areas.

## 6 **Subtitle B—Farming Incentive**

### 7 **SEC. 711. PRODUCTION FLEXIBILITY CONTRACT PAY-** 8 **MENTS.**

9 Any option to accelerate the receipt of any payment  
10 under a production flexibility contract which is payable  
11 under the Federal Agriculture Improvement and Reform  
12 Act of 1996 (7 U.S.C. 7200 et seq.), as in effect on the  
13 date of the enactment of this Act, shall be disregarded  
14 in determining the taxable year for which such payment  
15 is properly includible in gross income for purposes of the  
16 Internal Revenue Code of 1986.

## 17 **Subtitle C—Oil and Gas Incentive**

### 18 **SEC. 721. 5-YEAR NET OPERATING LOSS CARRYBACK FOR** 19 **LOSSES ATTRIBUTABLE TO OPERATING MIN-** 20 **ERAL INTERESTS OF INDEPENDENT OIL AND** 21 **GAS PRODUCERS.**

22 (a) IN GENERAL.—Paragraph (1) of section 172(b)  
23 (relating to years to which loss may be carried) is amended  
24 by adding at the end the following new subparagraph:

1                   “(H) LOSSES ON OPERATING MINERAL IN-  
2                   TERESTS OF INDEPENDENT OIL AND GAS PRO-  
3                   DUCERS.—In the case of a taxpayer—

4                   “(i) which has an eligible oil and gas  
5                   loss (as defined in subsection (j)) for a tax-  
6                   able year, and

7                   “(ii) which is not an integrated oil  
8                   company (as defined in section 291(b)(4)),  
9                   such eligible oil and gas loss shall be a net op-  
10                  erating loss carryback to each of the 5 taxable  
11                  years preceding the taxable year of such loss.”

12               (b) ELIGIBLE OIL AND GAS LOSS.—Section 172 is  
13               amended by redesignating subsection (j) as subsection (k)  
14               and by inserting after subsection (i) the following new sub-  
15               section:

16               “(j) ELIGIBLE OIL AND GAS LOSS.—For purposes of  
17               this section—

18               “(1) IN GENERAL.—The term ‘eligible oil and  
19               gas loss’ means the lesser of—

20               “(A) the amount which would be the net  
21               operating loss for the taxable year if only in-  
22               come and deductions attributable to operating  
23               mineral interests (as defined in section 614(d))  
24               in oil and gas wells are taken into account, or

1                   “(B) the amount of the net operating loss  
2                   for such taxable year.

3                   “(2) COORDINATION WITH SUBSECTION  
4                   (b)(2).—For purposes of applying subsection (b)(2),  
5                   an eligible oil and gas loss for any taxable year shall  
6                   be treated in a manner similar to the manner in  
7                   which a specified liability loss is treated.

8                   “(3) ELECTION.—Any taxpayer entitled to a 5-  
9                   year carryback under subsection (b)(1)(H) from any  
10                  loss year may elect to have the carryback period  
11                  with respect to such loss year determined without re-  
12                  gard to subsection (b)(1)(H).”

13                  “(c) EFFECTIVE DATE.—The amendments made by  
14                  this section shall apply to net operating losses for taxable  
15                  years beginning after December 31, 1998.

## 16                  **Subtitle D—Timber Incentive**

### 17                  **SEC. 731. INCREASE IN MAXIMUM PERMITTED AMORTIZA-** 18                  **TION OF REFORESTATION EXPENDITURES.**

19                  “(a) IN GENERAL.—Paragraph (1) of section 194(b)  
20                  (relating to amortization of reforestation expenditures) is  
21                  amended by striking “\$10,000 (\$5,000” and inserting  
22                  “\$25,000 (\$12,500”.

23                  “(b) EFFECTIVE DATE.—The amendment made by  
24                  this section shall apply to additions to capital account  
25                  made in taxable years beginning after December 31, 1998.

1                   **Subtitle E—Steel Industry**  
2                   **Incentive**

3   **SEC. 741. MINIMUM TAX RELIEF FOR STEEL INDUSTRY.**

4           (a) IN GENERAL.—Subsection (c) of section 53 (as  
5 amended by section 302) is amended by adding at the end  
6 the following new paragraph:

7                   “(4) STEEL COMPANIES.—In the case of a  
8 qualified corporation (as defined in section  
9 212(g)(1) of the Tax Reform Act of 1986), in  
10 lieu of applying paragraph (2), the limitation  
11 under paragraph (1) for any taxable year begin-  
12 ning after December 31, 1998, shall be in-  
13 creased (subject to the rule of the last sentence  
14 of paragraph (2)) by 90 percent of the tentative  
15 minimum tax.”

16          (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years beginning after  
18 December 31, 1998.

19                   **TITLE VIII—RELIEF FOR SMALL**  
20                   **BUSINESSES**

21   **SEC. 801. DEDUCTION FOR 100 PERCENT OF HEALTH IN-**  
22                   **SURANCE COSTS OF SELF-EMPLOYED INDIV-**  
23                   **VIDUALS.**

24          (a) IN GENERAL.—Paragraph (1) of section 162(l)  
25 is amended to read as follows:

1           “(1) ALLOWANCE OF DEDUCTION.—In the case  
2           of an individual who is an employee within the  
3           meaning of section 401(c)(1), there shall be allowed  
4           as a deduction under this section an amount equal  
5           to 100 percent of the amount paid during the tax-  
6           able year for insurance which constitutes medical  
7           care for the taxpayer, his spouse, and dependents.”

8           (b) EFFECTIVE DATE.—The amendment made by  
9           this section shall apply to taxable years beginning after  
10          December 31, 1999.

11       **SEC. 802. INCREASE IN EXPENSE TREATMENT FOR SMALL**  
12                               **BUSINESSES.**

13           (a) IN GENERAL.—Paragraph (1) of section 179(b)  
14           (relating to dollar limitation) is amended to read as fol-  
15           lows:

16           “(1) DOLLAR LIMITATION.—The aggregate cost  
17           which may be taken into account under subsection  
18           (a) for any taxable year shall not exceed \$30,000.”.

19           (b) EFFECTIVE DATE.—The amendment made by  
20           this section shall apply to taxable years beginning after  
21           December 31, 1999.

22       **SEC. 803. REPEAL OF FEDERAL UNEMPLOYMENT SURTAX.**

23           (a) IN GENERAL.—Section 3301 (relating to rate of  
24           Federal unemployment tax) is amended—

1 (1) by striking “2007” and inserting “2004”,  
 2 and

3 (2) by striking “2008” and inserting “2005”.

4 (b) EFFECTIVE DATE.—The amendment made by  
 5 this section shall apply to calendar years beginning after  
 6 the date of the enactment of this Act.

7 **SEC. 804. RESTORATION OF 80 PERCENT DEDUCTION FOR**  
 8 **MEAL EXPENSES.**

9 (a) IN GENERAL.—Paragraph (1) of section 274(n)  
 10 (relating to only 50 percent of meal and entertainment  
 11 expenses allowed as deduction) is amended by striking “50  
 12 percent” in the text and inserting “the allowable percent-  
 13 age”.

14 (b) ALLOWABLE PERCENTAGES.—Subsection (n) of  
 15 section 274 is amended by redesignating paragraphs (2)  
 16 and (3) as paragraphs (3) and (4), respectively, and by  
 17 inserting after paragraph (2) the following new paragraph:

18 “(2) ALLOWABLE PERCENTAGE.—For purposes  
 19 of paragraph (1), the allowable percentage is—

20 “(A) in the case of amounts for items de-  
 21 scribed in paragraph (1)(B), 50 percent, and

22 “(B) in the case of expenses for food or  
 23 beverages, the percentage determined in accord-  
 24 ance with the following table:

<b>“For taxable years beginning in calendar year—</b>	<b>The allowable percentage is—</b>
2000 through 2003 .....	50



2004 .....	55
2005 .....	60
2006 .....	65
2007 .....	70
2008 .....	75
2009 and thereafter .....	80.”

1 (b) CONFORMING AMENDMENTS.—

2 (1) The heading for subsection (n) of section  
 3 274 is amended by striking “50 PERCENT” and in-  
 4 serting “LIMITED PERCENTAGES”.

5 (2) Subparagraph (A) of section 274(n)(4), as  
 6 redesignated by subsection (a), is amended by strik-  
 7 ing “50 percent” and inserting “the allowable per-  
 8 centage”.

9 (c) EFFECTIVE DATE.—The amendments made by  
 10 this section shall apply to taxable years beginning after  
 11 December 31, 1999.

12 **TITLE IX—INTERNATIONAL TAX**  
 13 **RELIEF**

14 **SEC. 901. INTEREST ALLOCATION RULES.**

15 (a) ELECTION TO ALLOCATE INTEREST ON A  
 16 WORLDWIDE BASIS.—Subsection (e) of section 864 (relat-  
 17 ing to rules for allocating interest, etc.) is amended by  
 18 redesignating paragraphs (6) and (7) as paragraphs (7)  
 19 and (8), respectively, and by inserting after paragraph (5)  
 20 the following new paragraph:

21 “(6) ELECTION TO ALLOCATE INTEREST ON A  
 22 WORLDWIDE BASIS.—

1           “(A) IN GENERAL.—Except as provided in  
2           this paragraph, this subsection (other than  
3           paragraph (7)) shall be applied by treating each  
4           worldwide affiliated group for which an election  
5           under this paragraph is in effect as an affiliated  
6           group.

7           “(B) WORLDWIDE AFFILIATED GROUP.—  
8           For purposes of this paragraph, the term  
9           ‘worldwide affiliated group’ means the group of  
10          corporations which consists of—

11               “(i) all corporations in an affiliated  
12               group (as defined in paragraph (5)), and

13               “(ii) all foreign corporations (other  
14               than a FSC, as defined in section 922(a))  
15               with respect to which corporations de-  
16               scribed in clause (i) own stock meeting the  
17               ownership requirements of section 957(a)  
18               (without regard to stock considered as  
19               owned under section 958(b)).

20          “(C) ALLOCATION.—

21               “(i) IN GENERAL.—For purposes of  
22               paragraph (1), only the applicable percent-  
23               age of the interest expense and assets of a  
24               foreign corporation described in subpara-  
25               graph (B)(ii) shall be taken into account.

1                   “(ii) APPLICABLE PERCENTAGE.—For  
2                   purposes of this paragraph, the term ‘ap-  
3                   plicable percentage’ means, with respect to  
4                   any foreign corporation, the percentage  
5                   equal to the ratio which the value of the  
6                   stock in such corporation taken into ac-  
7                   count under subparagraph (B)(ii) bears to  
8                   the aggregate value of all stock in such  
9                   corporation.

10                  “(D) TREATMENT OF FOREIGN INTEREST  
11                  EXPENSE.—Interest expense of members of an  
12                  electing worldwide affiliated group which is allo-  
13                  cated to foreign source income under this sub-  
14                  section shall be reduced (but not below zero) by  
15                  the applicable percentage of the interest ex-  
16                  pense incurred by any foreign corporation in  
17                  the electing worldwide affiliated group to the  
18                  extent such interest would have been allocated  
19                  and apportioned to foreign source income of  
20                  such corporation if this subsection were applied  
21                  to a group consisting of all the foreign corpora-  
22                  tions in such affiliated group.

23                  “(E) ELECTION.—An election under this  
24                  paragraph with respect to any worldwide affli-  
25                  ated group may be made only by the common

1 parent of the affiliated group referred to in sub-  
2 paragraph (B)(i) and may be made only for the  
3 first taxable year beginning after December 31,  
4 2001, in which a worldwide affiliated group ex-  
5 ists which includes such affiliated group and at  
6 least 1 corporation described in subparagraph  
7 (B)(ii). Such an election, once made, shall apply  
8 to such parent and all other corporations which  
9 are included in such worldwide affiliated group  
10 for such taxable year and all subsequent years  
11 unless revoked with the consent of the Sec-  
12 retary.”.

13 (b) ELECTION TO ALLOCATE INTEREST WITHIN FI-  
14 NANCIAL INSTITUTION GROUPS AND SUBSIDIARY  
15 GROUPS.—Section 864 is amended by redesignating sub-  
16 section (f) as subsection (g) and by inserting after sub-  
17 section (e) the following new subsection:

18 “(f) ELECTION TO APPLY SUBSECTION (e) ON BASIS  
19 OF FINANCIAL INSTITUTION GROUP AND SUBSIDIARY  
20 GROUPS.—

21 “(1) IN GENERAL.—Subsection (e) (other than  
22 paragraph (7) thereof) shall be applied—

23 “(A) as if the electing financial institution  
24 group were a separate affiliated group, and

1           “(B) for purposes of allocating interest ex-  
2           pense with respect to qualified indebtedness of  
3           members of an electing subsidiary group, as if  
4           each electing subsidiary group were a separate  
5           affiliated group.

6           Subsection (e) shall apply to any such electing group  
7           in the same manner as subsection (e) applies to the  
8           pre-election affiliated group of which such electing  
9           group is a part.

10           “(2)   ELECTING   FINANCIAL   INSTITUTION  
11           GROUP.—For purposes of this subsection—

12           “(A) IN GENERAL.—The term ‘electing fi-  
13           nancial institution group’ means any group of  
14           corporations if—

15           “(i) such group consists only of all of  
16           the financial corporations in the pre-elec-  
17           tion affiliated group, and

18           “(ii) an election under this paragraph  
19           is in effect for such group of corporations.

20           “(B)   FINANCIAL   CORPORATION.—The  
21           term ‘financial corporation’ means any corpora-  
22           tion if at least 80 percent of its gross income  
23           is income described in section 904(d)(2)(C)(ii)  
24           and the regulations thereunder. To the extent  
25           provided in regulations prescribed by the Sec-

1           retary, such term includes a bank holding com-  
2           pany (within the meaning of section 2(a) of the  
3           Bank Holding Company Act of 1956).

4           “(C) EFFECT OF CERTAIN TRANS-  
5           ACTIONS.—Rules similar to the rules of para-  
6           graph (3)(D) shall apply to transactions be-  
7           tween any member of the electing financial in-  
8           stitution group and any member of the pre-elec-  
9           tion affiliated group (other than a member of  
10          the electing financial institution group).

11          “(D) ELECTION.—An election under this  
12          paragraph with respect to any financial institu-  
13          tion group may be made only by the common  
14          parent of the pre-election affiliated group. Such  
15          an election, once made, shall apply only to the  
16          taxable year for which made.

17          “(3) ELECTING SUBSIDIARY GROUPS.—

18               “(A) IN GENERAL.—The term ‘electing  
19               subsidiary group’ means any group of corpora-  
20               tions if—

21                       “(i) such group consists only of cor-  
22                       porations in the pre-election affiliated  
23                       group,

24                       “(ii) such group includes—

“(I) a domestic corporation  
(which is not the common parent of  
the pre-election affiliated group or a  
member of an electing financial insti-  
tution group) which incurs interest ex-  
pense with respect to qualified indebt-  
edness, and

8 “(II) every other corporation  
9 (other than a member of an electing  
10 financial institution group) which is in  
11 the pre-election affiliated group and  
12 which would be a member of an affili-  
13 ated group having such domestic cor-  
14 poration as the common parent, and

15                                   “(iii) an election under this paragraph  
16                                   is in effect for such group.

17                   “(B) EQUALIZATION RULE.—All interest  
18                   expense of a pre-election affiliated group (other  
19                   than subgroup interest expense) shall be treated  
20                   as allocated to foreign source income to the ex-  
21                   tent such expense does not exceed the excess (if  
22                   any) of—

23 “(i) the interest expense of the pre-  
24 election affiliated group (including sub-  
25 group interest expense) which would (but

1                   for any election under this paragraph) be  
2                   allocated to foreign source income, over

3                   “(ii) the subgroup interest expense al-  
4                   located to foreign source income.

5                   For purposes of the preceding sentence, the  
6                   subgroup interest expense is the interest ex-  
7                   pense to which subsection (e) applies separately  
8                   by reason of paragraph (1)(B).

9                   “(C) QUALIFIED INDEBTEDNESS.—For  
10                  purposes of this subsection, the term ‘qualified  
11                  indebtedness’ means any indebtedness of a do-  
12                  mestic corporation—

13                  “(i) which is held by an unrelated per-  
14                  son, and

15                  “(ii) which is not guaranteed (or oth-  
16                  erwise supported) by any corporation  
17                  which is a member of the pre-election af-  
18                  filiated group other than a corporation  
19                  which is a member of the electing sub-  
20                  sidiary group.

21                  For purposes of this subparagraph, the term  
22                  ‘unrelated person’ means any person not bear-  
23                  ing a relationship specified in section 267(b) or  
24                  707(b)(1) to the corporation.



1                   “(D) EFFECT OF CERTAIN TRANSACTIONS  
2                   ON QUALIFIED INDEBTEDNESS.—In the case of  
3                   a corporation which is a member of an electing  
4                   subsidiary group, to the extent that such  
5                   corporation—

6                   “(i) distributes dividends or makes  
7                   other distributions with respect to its stock  
8                   after the date of the enactment of this  
9                   paragraph to any member of the pre-elec-  
10                  tion affiliated group (other than to a mem-  
11                  ber of the electing subsidiary group) in ex-  
12                  cess of the greater of—

13                  “(I) its average annual dividend  
14                  (expressed as a percentage of current  
15                  earnings and profits) during the 5-  
16                  taxable-year period ending with the  
17                  taxable year preceding the taxable  
18                  year, or

19                  “(II) 25 percent of its average  
20                  annual earnings and profits for such 5  
21                  taxable year period, or

22                  “(ii) deals with any person in any  
23                  manner not clearly reflecting the income of  
24                  the corporation (as determined under prin-

1           ciples similar to the principles of section  
2           482),  
3           an amount of qualified indebtedness equal to  
4           the excess distribution or the understatement or  
5           overstatement of income, as the case may be,  
6           shall be recharacterized (for the taxable year  
7           and subsequent taxable years) for purposes of  
8           this subsection as indebtedness which is not  
9           qualified indebtedness. If a corporation has not  
10          been in existence for 5 taxable years, this sub-  
11          paragraph shall be applied with respect to the  
12          period it was in existence.

13               “(E) ELECTION.—An election under this  
14          paragraph with respect to any electing sub-  
15          sidiary group may be made only by the common  
16          parent of the pre-election affiliated group. Such  
17          an election, once made, shall apply only to the  
18          taxable year for which made. No election may  
19          be made under this paragraph if the effect of  
20          the election would be to have the same member  
21          of the pre-election affiliated group included in  
22          more than 1 electing subsidiary group.

23               “(4) PRE-ELECTION AFFILIATED GROUP.—For  
24          purposes of this subsection, the term ‘pre-election  
25          affiliated group’ means, with respect to a corpora-

1       tion, the affiliated group or electing worldwide affili-  
2       ated group of which such corporation would (but for  
3       an election under this subsection) be a member for  
4       purposes of applying subsection (e).

5           “(5) REGULATIONS.—The Secretary shall pre-  
6       scribe such regulations as may be appropriate to  
7       carry out this subsection and subsection (e), includ-  
8       ing regulations—

9           “(A) providing for the direct allocation of  
10       interest expense in other circumstances where  
11       such allocation would be appropriate to carry  
12       out the purposes of this subsection,

13           “(B) preventing assets or interest expense  
14       from being taken into account more than once,  
15       and

16           “(C) dealing with changes in members of  
17       any group (through acquisitions or otherwise)  
18       treated under this subsection as an affiliated  
19       group for purposes of subsection (e).”

20       (c) INSURANCE COMPANIES INCLUDED IN AFFILI-  
21       ATED GROUPS.—Paragraph (5) of section 864(e) is  
22       amended to read as follows:

23           “(5) AFFILIATED GROUP.—The term ‘affiliated  
24       group’ has the meaning given such term by section

1       1504 (determined without regard to paragraphs (2)  
2       and (4) of section 1504(b)).”.

3       (d) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2001.

6 **SEC. 902. LOOK-THRU RULES TO APPLY TO DIVIDENDS**  
7 **FROM NONCONTROLLED SECTION 902 COR-**  
8 **PORATIONS.**

9       (a) IN GENERAL.—Section 904(d)(4) (relating to ap-  
10 plication of look-thru rules to dividends from noncon-  
11 trolled section 902 corporations) is amended to read as  
12 follows:

13               “(4) LOOK-THRU APPLIES TO DIVIDENDS FROM  
14 NONCONTROLLED SECTION 902 CORPORATIONS.—

15               “(A) IN GENERAL.—For purposes of this  
16 subsection, any dividend from a noncontrolled  
17 section 902 corporation with respect to the tax-  
18 payer shall be treated as income in a separate  
19 category in proportion to the ratio of—

20                       “(i) the portion of earnings and prof-  
21 its attributable to income in such category,  
22 to

23                       “(ii) the total amount of earnings and  
24 profits.

1                   “(B) SPECIAL RULES.—For purposes of  
2                   this paragraph—

3                   “(i) IN GENERAL.—Rules similar to  
4                   the rules of paragraph (3)(F) shall apply;  
5                   except that the term ‘separate category’  
6                   shall include the category of income de-  
7                   scribed in paragraph (1)(I).

8                   “(ii) EARNINGS AND PROFITS.—

9                   “(I) IN GENERAL.—The rules of  
10                  section 316 shall apply.

11                  “(II) REGULATIONS.—The Sec-  
12                  retary may prescribe regulations re-  
13                  garding the treatment of distributions  
14                  out of earnings and profits for periods  
15                  before the taxpayer’s acquisition of  
16                  the stock to which the distributions  
17                  relate.

18                  “(iii) DIVIDENDS NOT ALLOCABLE TO  
19                  SEPARATE CATEGORY.—The portion of any  
20                  dividend from a noncontrolled section 902  
21                  corporation which is not treated as income  
22                  in a separate category under subparagraph  
23                  (A) shall be treated as a dividend to which  
24                  subparagraph (A) does not apply.

1                   “(iv) LOOK-THRU WITH RESPECT TO  
2                   CARRYFORWARDS OF CREDIT.—Rules simi-  
3                   lar to subparagraph (A) also shall apply to  
4                   any carryforward under subsection (c)  
5                   from a taxable year beginning before Janu-  
6                   ary 1, 2002, of tax allocable to a dividend  
7                   from a noncontrolled section 902 corpora-  
8                   tion with respect to the taxpayer.”

9                   (b) CONFORMING AMENDMENTS.—

10                  (1) Subparagraph (E) of section 904(d)(1), as  
11                  in effect both before and after the amendments  
12                  made by section 1105 of the Taxpayer Relief Act of  
13                  1997, is hereby repealed.

14                  (2) Section 904(d)(2)(C)(iii), as so in effect, is  
15                  amended by striking subclause (II) and by redesign-  
16                  ating subclause (III) as subclause (II).

17                  (3) The last sentence of section 904(d)(2)(D),  
18                  as so in effect, is amended to read as follows: “Such  
19                  term does not include any financial services income.”

20                  (4) Section 904(d)(2)(E) is amended by strik-  
21                  ing clauses (ii) and (iv) and by redesignating clause  
22                  (iii) as clause (ii).

23                  (5) Section 904(d)(3)(F) is amended by strik-  
24                  ing “(D), or (E)” and inserting “or (D)”.

1           (6) Section 864(d)(5)(A)(i) is amended by  
2       striking “(C)(iii)(III)” and inserting “(C)(iii)(II)”.

3       (c) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 2001.

6 **SEC. 903. CLARIFICATION OF TREATMENT OF PIPELINE**  
7 **TRANSPORTATION INCOME.**

8       (a) IN GENERAL.—Section 954(g)(1) (defining for-  
9 eign base company oil related income) is amended by strik-  
10 ing “or” at the end of subparagraph (A), by striking the  
11 period at the end of subparagraph (B) and inserting “,  
12 or”, and by inserting after subparagraph (B) the following  
13 new subparagraph:

14               “(C) the pipeline transportation of oil or  
15               gas within such foreign country.”

16       (b) EFFECTIVE DATE.—The amendment made by  
17 this section shall apply to taxable years of controlled for-  
18 eign corporations beginning after December 31, 2001, and  
19 taxable years of United States shareholders with or within  
20 which such taxable years of controlled foreign corporations  
21 end.

1 **SEC. 904. SUBPART F TREATMENT OF INCOME FROM**  
2 **TRANSMISSION OF HIGH VOLTAGE ELEC-**  
3 **TRICITY.**

4 (a) IN GENERAL.—Paragraph (2) of section 954(e)  
5 (relating to foreign base company services income) is  
6 amended by striking “or” at the end of subparagraph (A),  
7 by striking the period at the end of subparagraph (B) and  
8 inserting “, or”, and by inserting after subparagraph (B)  
9 the following new subparagraph:

10 “(C) the transmission of high voltage elec-  
11 tricity.”

12 (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall apply to taxable years of controlled for-  
14 eign corporations beginning after December 31, 2001, and  
15 taxable years of United States shareholders with or within  
16 which such taxable years of controlled foreign corporations  
17 end.

18 **SEC. 905. RECHARACTERIZATION OF OVERALL DOMESTIC**  
19 **LOSS.**

20 (a) GENERAL RULE.—Section 904 is amended by re-  
21 designating subsections (g), (h), (i), (j), and (k) as sub-  
22 sections (h), (i), (j), (k), and (l), respectively, and by in-  
23 serting after subsection (f) the following new subsection:

24 “(g) RECHARACTERIZATION OF OVERALL DOMESTIC  
25 LOSS.—



1           “(1) GENERAL RULE.—For purposes of this  
2           subpart and section 936, in the case of any taxpayer  
3           who sustains an overall domestic loss for any taxable  
4           year beginning after December 31, 2004, that por-  
5           tion of the taxpayer’s taxable income from sources  
6           within the United States for each succeeding taxable  
7           year which is equal to the lesser of—

8                   “(A) the amount of such loss (to the extent  
9                   not used under this paragraph in prior taxable  
10                  years), or

11                  “(B) 50 percent of the taxpayer’s taxable  
12                  income from sources within the United States  
13                  for such succeeding taxable year,  
14           shall be treated as income from sources without the  
15           United States (and not as income from sources with-  
16           in the United States).

17           “(2) OVERALL DOMESTIC LOSS DEFINED.—For  
18           purposes of this subsection—

19                   “(A) IN GENERAL.—The term ‘overall do-  
20                   mestic loss’ means any domestic loss to the ex-  
21                   tent such loss offsets taxable income from  
22                   sources without the United States for the tax-  
23                   able year or for any preceding taxable year by  
24                   reason of a carryback. For purposes of the pre-  
25                   ceding sentence, the term ‘domestic loss’ means

1           the amount by which the gross income for the  
2           taxable year from sources within the United  
3           States is exceeded by the sum of the deductions  
4           properly apportioned or allocated thereto (deter-  
5           mined without regard to any carryback from a  
6           subsequent taxable year).

7           “(B) TAXPAYER MUST HAVE ELECTED  
8           FOREIGN TAX CREDIT FOR YEAR OF LOSS.—  
9           The term ‘overall domestic loss’ shall not in-  
10          clude any loss for any taxable year unless the  
11          taxpayer chose the benefits of this subpart for  
12          such taxable year.

13          “(3) CHARACTERIZATION OF SUBSEQUENT IN-  
14          COME.—

15          “(A) IN GENERAL.—Any income from  
16          sources within the United States that is treated  
17          as income from sources without the United  
18          States under paragraph (1) shall be allocated  
19          among and increase the income categories in  
20          proportion to the loss from sources within the  
21          United States previously allocated to those in-  
22          come categories.

23          “(B) INCOME CATEGORY.—For purposes of  
24          this paragraph, the term ‘income category’ has

1 the meaning given such term by subsection  
2 (f)(5)(E)(i).

3 “(4) COORDINATION WITH SUBSECTION (f).—

4 The Secretary shall prescribe such regulations as  
5 may be necessary to coordinate the provisions of this  
6 subsection with the provisions of subsection (f).”

7 (b) CONFORMING AMENDMENTS.—

8 (1) Section 535(d)(2) is amended by striking  
9 “section 904(g)(6)” and inserting “section  
10 904(h)(6)”.

11 (2) Subparagraph (A) of section 936(a)(2) is  
12 amended by striking “section 904(f)” and inserting  
13 “subsections (f) and (g) of section 904”.

14 (c) EFFECTIVE DATE.—The amendments made by  
15 this section shall apply to losses for taxable years begin-  
16 ning after December 31, 2004.

17 **SEC. 906. TREATMENT OF MILITARY PROPERTY OF FOR-**  
18 **EIGN SALES CORPORATIONS.**

19 (a) IN GENERAL.—Section 923(a) (defining exempt  
20 foreign trade income) is amended by striking paragraph  
21 (5) and by redesignating paragraph (6) as paragraph (5).

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 2001.

1 **SEC. 907. TREATMENT OF CERTAIN DIVIDENDS OF REGU-**  
2 **LATED INVESTMENT COMPANIES.**

3 (a) TREATMENT OF CERTAIN DIVIDENDS.—

4 (1) NONRESIDENT ALIEN INDIVIDUALS.—Sec-  
5 tion 871 (relating to tax on nonresident alien indi-  
6 viduals) is amended by redesignating subsection (k)  
7 as subsection (l) and by inserting after subsection (j)  
8 the following new subsection:

9 “(k) EXEMPTION FOR CERTAIN DIVIDENDS OF REG-  
10 ULATED INVESTMENT COMPANIES.—

11 “(1) INTEREST-RELATED DIVIDENDS.—

12 “(A) IN GENERAL.—Except as provided in  
13 subparagraph (B), no tax shall be imposed  
14 under paragraph (1)(A) of subsection (a) on  
15 any interest-related dividend received from a  
16 regulated investment company.

17 “(B) EXCEPTIONS.—Subparagraph (A)  
18 shall not apply—

19 “(i) to any interest-related dividend  
20 received from a regulated investment com-  
21 pany by a person to the extent such divi-  
22 dend is attributable to interest (other than  
23 interest described in subparagraph (E) (i)  
24 or (iii)) received by such company on in-  
25 debtedness issued by such person or by any  
26 corporation or partnership with respect to

1           which such person is a 10-percent share-  
2           holder,

3                 “(ii) to any interest-related dividend  
4           with respect to stock of a regulated invest-  
5           ment company unless the person who  
6           would otherwise be required to deduct and  
7           withhold tax from such dividend under  
8           chapter 3 receives a statement (which  
9           meets requirements similar to the require-  
10          ments of subsection (h)(5)) that the bene-  
11          ficial owner of such stock is not a United  
12          States person, and

13                 “(iii) to any interest-related dividend  
14          paid to any person within a foreign coun-  
15          try (or any interest-related dividend pay-  
16          ment addressed to, or for the account of,  
17          persons within such foreign country) dur-  
18          ing any period described in subsection  
19          (h)(6) with respect to such country.

20          Clause (iii) shall not apply to any dividend with  
21          respect to any stock the holding period of which  
22          begins on or before the date of the publication  
23          of the Secretary’s determination under sub-  
24          section (h)(6).

1                   “(C) INTEREST-RELATED DIVIDEND.—For  
2                   purposes of this paragraph, an interest-related  
3                   dividend is any dividend (or part thereof) which  
4                   is designated by the regulated investment com-  
5                   pany as an interest-related dividend in a writ-  
6                   ten notice mailed to its shareholders not later  
7                   than 60 days after the close of its taxable year.  
8                   If the aggregate amount so designated with re-  
9                   spect to a taxable year of the company (includ-  
10                  ing amounts so designated with respect to divi-  
11                  dends paid after the close of the taxable year  
12                  described in section 855) is greater than the  
13                  qualified net interest income of the company for  
14                  such taxable year, the portion of each distribu-  
15                  tion which shall be an interest-related dividend  
16                  shall be only that portion of the amounts so  
17                  designated which such qualified net interest in-  
18                  come bears to the aggregate amount so des-  
19                  ignated.

20                  “(D) QUALIFIED NET INTEREST IN-  
21                  COME.—For purposes of subparagraph (C), the  
22                  term ‘qualified net interest income’ means the  
23                  qualified interest income of the regulated in-  
24                  vestment company reduced by the deductions  
25                  properly allocable to such income.

1           “(E) QUALIFIED INTEREST INCOME.—For  
2           purposes of subparagraph (D), the term ‘quali-  
3           fied interest income’ means the sum of the fol-  
4           lowing amounts derived by the regulated invest-  
5           ment company from sources within the United  
6           States:

7                   “(i) Any amount includible in gross  
8                   income as original issue discount (within  
9                   the meaning of section 1273) on an obliga-  
10                  tion payable 183 days or less from the date  
11                  of original issue (without regard to the pe-  
12                  riod held by the company).

13                  “(ii) Any interest includible in gross  
14                  income (including amounts recognized as  
15                  ordinary income in respect of original issue  
16                  discount or market discount or acquisition  
17                  discount under part V of subchapter P and  
18                  such other amounts as regulations may  
19                  provide) on an obligation which is in reg-  
20                  istered form; except that this clause shall  
21                  not apply to—

22                   “(I) any interest on an obligation  
23                   issued by a corporation or partnership  
24                   if the regulated investment company

1 is a 10-percent shareholder in such  
2 corporation or partnership, and

3 “(II) any interest which is treat-  
4 ed as not being portfolio interest  
5 under the rules of subsection (h)(4).

6 “(iii) Any interest referred to in sub-  
7 section (i)(2)(A) (without regard to the  
8 trade or business of the regulated invest-  
9 ment company).

10 “(iv) Any interest-related dividend in-  
11 cludable in gross income with respect to  
12 stock of another regulated investment com-  
13 pany.

14 Such term includes any interest derived by the  
15 regulated investment company from sources  
16 outside the United States other than interest  
17 that is subject to a tax imposed by a foreign ju-  
18 risdiction if the amount of such tax is reduced  
19 (or eliminated) by a treaty with the United  
20 States.

21 “(F) 10-PERCENT SHAREHOLDER.—For  
22 purposes of this paragraph, the term ‘10-per-  
23 cent shareholder’ has the meaning given such  
24 term by subsection (h)(3)(B).

25 “(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—



1           “(A) IN GENERAL.—Except as provided in  
2           subparagraph (B), no tax shall be imposed  
3           under paragraph (1)(A) of subsection (a) on  
4           any short-term capital gain dividend received  
5           from a regulated investment company.

6           “(B) EXCEPTION FOR ALIENS TAXABLE  
7           UNDER SUBSECTION (a)(2).—Subparagraph (A)  
8           shall not apply in the case of any nonresident  
9           alien individual subject to tax under subsection  
10          (a)(2).

11          “(C) SHORT-TERM CAPITAL GAIN DIVI-  
12          DEND.—For purposes of this paragraph, a  
13          short-term capital gain dividend is any dividend  
14          (or part thereof) which is designated by the reg-  
15          ulated investment company as a short-term cap-  
16          ital gain dividend in a written notice mailed to  
17          its shareholders not later than 60 days after the  
18          close of its taxable year. If the aggregate  
19          amount so designated with respect to a taxable  
20          year of the company (including amounts so des-  
21          ignated with respect to dividends paid after the  
22          close of the taxable year described in section  
23          855) is greater than the qualified short-term  
24          gain of the company for such taxable year, the  
25          portion of each distribution which shall be a

1 short-term capital gain dividend shall be only  
2 that portion of the amounts so designated  
3 which such qualified short-term gain bears to  
4 the aggregate amount so designated.

5 “(D) QUALIFIED SHORT-TERM GAIN.—For  
6 purposes of subparagraph (C), the term ‘quali-  
7 fied short-term gain’ means the excess of the  
8 net short-term capital gain of the regulated in-  
9 vestment company for the taxable year over the  
10 net long-term capital loss (if any) of such com-  
11 pany for such taxable year. For purposes of this  
12 subparagraph—

13 “(i) the net short-term capital gain of  
14 the regulated investment company shall be  
15 computed by treating any short-term cap-  
16 ital gain dividend includible in gross in-  
17 come with respect to stock of another regu-  
18 lated investment company as a short-term  
19 capital gain, and

20 “(ii) the excess of the net short-term  
21 capital gain for a taxable year over the net  
22 long-term capital loss for a taxable year (to  
23 which an election under section 4982(e)(4)  
24 does not apply) shall be determined with-  
25 out regard to any net capital loss or net

1 short-term capital loss attributable to  
2 transactions after October 31 of such year,  
3 and any such net capital loss or net short-  
4 term capital loss shall be treated as arising  
5 on the 1st day of the next taxable year.

6 To the extent provided in regulations, clause  
7 (ii) shall apply also for purposes of computing  
8 the taxable income of the regulated investment  
9 company.”

10 (2) FOREIGN CORPORATIONS.—Section 881 (re-  
11 lating to tax on income of foreign corporations not  
12 connected with United States business) is amended  
13 by redesignating subsection (e) as subsection (f) and  
14 by inserting after subsection (d) the following new  
15 subsection:

16 “(e) TAX NOT TO APPLY TO CERTAIN DIVIDENDS  
17 OF REGULATED INVESTMENT COMPANIES.—

18 “(1) INTEREST-RELATED DIVIDENDS.—

19 “(A) IN GENERAL.—Except as provided in  
20 subparagraph (B), no tax shall be imposed  
21 under paragraph (1) of subsection (a) on any  
22 interest-related dividend (as defined in section  
23 871(k)(1)) received from a regulated investment  
24 company.

1                   “(B)   EXCEPTION.—Subparagraph   (A)  
2                   shall not apply—

3                   “(i) to any dividend referred to in sec-  
4                   tion 871(k)(1)(B), and

5                   “(ii) to any interest-related dividend  
6                   received by a controlled foreign corporation  
7                   (within the meaning of section 957(a)) to  
8                   the extent such dividend is attributable to  
9                   interest received by the regulated invest-  
10                  ment company from a person who is a re-  
11                  lated person (within the meaning of section  
12                  864(d)(4)) with respect to such controlled  
13                  foreign corporation.

14                  “(C)   TREATMENT OF DIVIDENDS RE-  
15                  CEIVED BY CONTROLLED FOREIGN CORPORA-  
16                  TIONS.—The rules of subsection (c)(5)(A) shall  
17                  apply to any interest-related dividend received  
18                  by a controlled foreign corporation (within the  
19                  meaning of section 957(a)) to the extent such  
20                  dividend is attributable to interest received by  
21                  the regulated investment company which is de-  
22                  scribed in clause (ii) of section 871(k)(1)(E)  
23                  (and not described in clause (i) or (iii) of such  
24                  section).

1           “(2) SHORT-TERM CAPITAL GAIN DIVIDENDS.—  
2       No tax shall be imposed under paragraph (1) of sub-  
3       section (a) on any short-term capital gain dividend  
4       (as defined in section 871(k)(2)) received from a  
5       regulated investment company.”

6           (3) WITHHOLDING TAXES.—

7           (A) Section 1441(c) (relating to excep-  
8       tions) is amended by adding at the end the fol-  
9       lowing new paragraph:

10          “(12) CERTAIN DIVIDENDS RECEIVED FROM  
11       REGULATED INVESTMENT COMPANIES.—

12           “(A) IN GENERAL.—No tax shall be re-  
13       quired to be deducted and withheld under sub-  
14       section (a) from any amount exempt from the  
15       tax imposed by section 871(a)(1)(A) by reason  
16       of section 871(k).

17           “(B) SPECIAL RULE.—For purposes of  
18       subparagraph (A), clause (i) of section  
19       871(k)(1)(B) shall not apply to any dividend  
20       unless the regulated investment company knows  
21       that such dividend is a dividend referred to in  
22       such clause. A similar rule shall apply with re-  
23       spect to the exception contained in section  
24       871(k)(2)(B).”

1 (B) Section 1442(a) (relating to with-  
2 holding of tax on foreign corporations) is  
3 amended—

4 (i) by striking “and the reference in  
5 section 1441(c)(10)” and inserting “the  
6 reference in section 1441(c)(10)”, and

7 (ii) by inserting before the period at  
8 the end the following: “, and the references  
9 in section 1441(c)(12) to sections 871(a)  
10 and 871(k) shall be treated as referring to  
11 sections 881(a) and 881(e) (except that for  
12 purposes of applying subparagraph (A) of  
13 section 1441(c)(12), as so modified, clause  
14 (ii) of section 881(e)(1)(B) shall not apply  
15 to any dividend unless the regulated invest-  
16 ment company knows that such dividend is  
17 a dividend referred to in such clause)”.

18 (b) ESTATE TAX TREATMENT OF INTEREST IN CER-  
19 TAIN REGULATED INVESTMENT COMPANIES.—Section  
20 2105 (relating to property without the United States for  
21 estate tax purposes) is amended by adding at the end the  
22 following new subsection:

23 “(d) STOCK IN A RIC.—

24 “(1) IN GENERAL.—For purposes of this sub-  
25 chapter, stock in a regulated investment company

1 (as defined in section 851) owned by a nonresident  
2 not a citizen of the United States shall not be  
3 deemed property within the United States in the  
4 proportion that, at the end of the quarter of such in-  
5 vestment company's taxable year immediately pre-  
6 ceding a decedent's date of death (or at such other  
7 time as the Secretary may designate in regulations),  
8 the assets of the investment company that were  
9 qualifying assets with respect to the decedent bore  
10 to the total assets of the investment company.

11 “(2) QUALIFYING ASSETS.—For purposes of  
12 this subsection, qualifying assets with respect to a  
13 decedent are assets that, if owned directly by the de-  
14 cedent, would have been—

15 “(A) amounts, deposits, or debt obligations  
16 described in subsection (b) of this section,

17 “(B) debt obligations described in the last  
18 sentence of section 2104(c), or

19 “(C) other property not within the United  
20 States.”

21 (c) TREATMENT OF REGULATED INVESTMENT COM-  
22 PANIES UNDER SECTION 897.—

23 (1) Paragraph (1) of section 897(h) is amended  
24 by striking “REIT” each place it appears and in-  
25 serting “qualified investment entity”.

1           (2) Paragraphs (2) and (3) of section 897(h)  
2           are amended to read as follows:

3           “(2) SALE OF STOCK IN DOMESTICALLY CON-  
4           TROLLED ENTITY NOT TAXED.—The term ‘United  
5           States real property interest’ does not include any  
6           interest in a domestically controlled qualified invest-  
7           ment entity.

8           “(3) DISTRIBUTIONS BY DOMESTICALLY CON-  
9           TROLLED QUALIFIED INVESTMENT ENTITIES.—In  
10          the case of a domestically controlled qualified invest-  
11          ment entity, rules similar to the rules of subsection  
12          (d) shall apply to the foreign ownership percentage  
13          of any gain.”

14          (3) Subparagraphs (A) and (B) of section  
15          897(h)(4) are amended to read as follows:

16               “(A) QUALIFIED INVESTMENT ENTITY.—  
17               The term ‘qualified investment entity’ means  
18               any real estate investment trust and any regu-  
19               lated investment company.

20               “(B) DOMESTICALLY CONTROLLED.—The  
21               term ‘domestically controlled qualified invest-  
22               ment entity’ means any qualified investment en-  
23               tity in which at all times during the testing pe-  
24               riod less than 50 percent in value of the stock



1           was held directly or indirectly by foreign per-  
2           sons.”

3           (4) Subparagraphs (C) and (D) of section  
4           897(h)(4) are each amended by striking “REIT”  
5           and inserting “qualified investment entity”.

6           (5) The subsection heading for subsection (h) of  
7           section 897 is amended by striking “REITS” and  
8           inserting “CERTAIN INVESTMENT ENTITIES”.

9           (d) EFFECTIVE DATE.—

10          (1) IN GENERAL.—Except as otherwise pro-  
11          vided in this subsection, the amendments made by  
12          this section shall apply to dividends with respect to  
13          taxable years of regulated investment companies be-  
14          ginning after December 31, 2004.

15          (2) ESTATE TAX TREATMENT.—The amend-  
16          ment made by subsection (b) shall apply to estates  
17          of decedents dying after December 31, 2004.

18          (3) CERTAIN OTHER PROVISIONS.—The amend-  
19          ments made by subsection (c) (other than paragraph  
20          (1) thereof) shall take effect on January 1, 2005.

21   **SEC. 908. REPEAL OF SPECIAL RULES FOR APPLYING FOR-**  
22                   **EIGN TAX CREDIT IN CASE OF FOREIGN OIL**  
23                   **AND GAS INCOME.**

24          (a) IN GENERAL.—Section 907 (relating to special  
25          rules in case of foreign oil and gas income) is repealed.

1 (b) CONFORMING AMENDMENTS.—

2 (1) Each of the following provisions are amend-  
3 ed by striking “907,”:

4 (A) Section 245(a)(10).

5 (B) Section 865(h)(1)(B).

6 (C) Section 904(d)(1).

7 (D) Section 904(g)(10)(A).

8 (2) Section 904(f)(5)(E)(iii) is amended by in-  
9 serting “, as in effect before its repeal by the Finan-  
10 cial Freedom Act of 1999” after “section  
11 907(c)(4)(B)”.

12 (3) Section 954(g)(1) is amended by inserting  
13 “, as in effect before its repeal by the Financial  
14 Freedom Act of 1999” after “907(c)”.

15 (4) Section 6501(i) is amended—

16 (A) by striking “, or under section 907(f)  
17 (relating to carryback and carryover of dis-  
18 allowed oil and gas extraction taxes)”, and

19 (B) by striking “or 907(f)”.

20 (5) The table of sections for subpart A of part  
21 III of subchapter N of chapter 1 is amended by  
22 striking the item relating to section 907.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to taxable years beginning after  
25 December 31, 2004.

1 **SEC. 909. STUDY OF PROPER TREATMENT OF EUROPEAN**  
2 **UNION UNDER SAME COUNTRY EXCEPTIONS.**

3 (a) STUDY.—The Secretary of the Treasury or the  
4 Secretary's delegate shall conduct a study on the feasi-  
5 bility of treating all countries included in the European  
6 Union as 1 country for purposes of applying the same  
7 country exceptions under subpart F of part III of sub-  
8 chapter N of chapter 1 of the Internal Revenue Code of  
9 1986.

10 (b) REPORT.—Not later than 6 months after the date  
11 of the enactment of this Act, the Secretary of the Treasury  
12 shall report to the Committee on Ways and Means of the  
13 House of Representatives and the Committee on Finance  
14 of the Senate the results of the study conducted under  
15 subsection (a), including recommendations (if any) for leg-  
16 islation.

17 **SEC. 910. APPLICATION OF DENIAL OF FOREIGN TAX CRED-**  
18 **IT WITH RESPECT TO CERTAIN FOREIGN**  
19 **COUNTRIES.**

20 (a) IN GENERAL.—Clause (ii) of section 901(j)(2)(B)  
21 (relating to denial of foreign tax credit, etc., with respect  
22 to certain foreign countries) is amended by inserting be-  
23 fore the period “or, if earlier, ending on the date that the  
24 President determines that the application of this sub-  
25 section to such foreign country is no longer in the national  
26 interests of the United States”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall take effect on the date of the enactment  
3 of this Act.

4 **SEC. 911. ADVANCE PRICING AGREEMENTS TREATED AS**  
5 **CONFIDENTIAL TAXPAYER INFORMATION.**

6 (a) IN GENERAL.—

7 (1) TREATMENT AS RETURN INFORMATION.—

8 Paragraph (2) of section 6103(b) (defining return  
9 information) is amended by striking “and” at the  
10 end of subparagraph (A), by inserting “and” at the  
11 end of subparagraph (B), and by inserting after sub-  
12 paragraph (B) the following new subparagraph:

13 “(C) any advance pricing agreement en-  
14 tered into by a taxpayer and the Secretary and  
15 any background information related to such  
16 agreement or any application for an advance  
17 pricing agreement,”.

18 (2) EXCEPTION FROM PUBLIC INSPECTION AS  
19 WRITTEN DETERMINATION.—Paragraph (1) of sec-  
20 tion 6110(b) (defining written determination) is  
21 amended by adding at the end the following new  
22 sentence: “Such term shall not include any advance  
23 pricing agreement entered into by a taxpayer and  
24 the Secretary and any background information re-

1       lated to such agreement or any application for an  
2       advance pricing agreement.”.

3           (3) EFFECTIVE DATE.—The amendments made  
4       by this subsection shall take effect on the date of the  
5       enactment of this Act.

6       (b) ANNUAL REPORT REGARDING ADVANCE PRICING  
7       AGREEMENTS.—

8           (1) IN GENERAL.—Not later than 90 days after  
9       the end of each calendar year, the Secretary of the  
10      Treasury shall prepare and publish a report regard-  
11      ing advance pricing agreements.

12          (2) CONTENTS OF REPORT.—The report shall  
13      include the following for the calendar year to which  
14      such report relates:

15           (A) Information about the structure, com-  
16      position, and operation of the advance pricing  
17      agreement program office.

18           (B) A copy of each model advance pricing  
19      agreement.

20           (C) The number of—

21           (i) applications filed during such cal-  
22      endar year for advanced pricing agree-  
23      ments;

1                   (ii) advance pricing agreements exe-  
2                   cuted cumulatively to date and during such  
3                   calendar year;

4                   (iii) renewals of advanced pricing  
5                   agreements issued;

6                   (iv) pending requests for advance pric-  
7                   ing agreements;

8                   (v) pending renewals of advance pric-  
9                   ing agreements;

10                  (vi) for each of the items in clauses  
11                  (ii) through (v), the number that are uni-  
12                  lateral, bilateral, and multilateral, respec-  
13                  tively;

14                  (vii) advance pricing agreements re-  
15                  voked or canceled, and the number of with-  
16                  drawals from the advance pricing agree-  
17                  ment program; and

18                  (viii) advanced pricing agreements fi-  
19                  nalized or renewed by industry.

20                  (D) General descriptions of—

21                  (i) the nature of the relationships be-  
22                  tween the related organizations, trades, or  
23                  businesses covered by advance pricing  
24                  agreements;

1                   (ii) the covered transactions and the  
2                   business functions performed and risks as-  
3                   sumed by such organizations, trades, or  
4                   businesses;

5                   (iii) the related organizations, trades,  
6                   or businesses whose prices or results are  
7                   tested to determine compliance with trans-  
8                   fer pricing methodologies prescribed in ad-  
9                   vanced pricing agreements;

10                  (iv) methodologies used to evaluate  
11                  tested parties and transactions and the cir-  
12                  cumstances leading to the use of those  
13                  methodologies;

14                  (v) critical assumptions made and  
15                  sources of comparables used;

16                  (vi) comparable selection criteria and  
17                  the rationale used in determining such cri-  
18                  teria;

19                  (vii) the nature of adjustments to  
20                  comparables or tested parties;

21                  (viii) the nature of any ranges agreed  
22                  to, including information regarding when  
23                  no range was used and why, when inter-  
24                  quartile ranges were used, and when there

1                   was a statistical narrowing of the  
2                   comparables;

3                   (ix) adjustment mechanisms provided  
4                   to rectify results that fall outside of the  
5                   agreed upon advance pricing agreement  
6                   range;

7                   (x) the various term lengths for ad-  
8                   vance pricing agreements, including roll-  
9                   back years, and the number of advance  
10                  pricing agreements with each such term  
11                  length;

12                  (xi) the nature of documentation re-  
13                  quired; and

14                  (xii) approaches for sharing of cur-  
15                  rency or other risks.

16                  (E) Statistics regarding the amount of  
17                  time taken to complete new and renewal ad-  
18                  vance pricing agreements.

19                  (3) CONFIDENTIALITY.—The reports required  
20                  by this subsection shall be treated as authorized by  
21                  the Internal Revenue Code of 1986 for purposes of  
22                  section 6103 of such Code, but the reports shall not  
23                  include information—

24                         (A) which would not be permitted to be  
25                         disclosed under section 6110(c) of such Code if



1           such report were a written determination as de-  
2           fined in section 6110 of such Code, or

3           (B) which can be associated with, or other-  
4           wise identify, directly or indirectly, a particular  
5           taxpayer.

6           (4) FIRST REPORT.—The report for calendar  
7           year 1999 shall include prior calendar years after  
8           1990.

9           (c) USER FEE.—Section 7527, as added by title XV  
10          of this Act, is amended by redesignating subsection (c)  
11          as subsection (d) and by inserting after subsection (b) the  
12          following new subsection:

13          “(c) ADVANCE PRICING AGREEMENTS.—

14                 “(1) IN GENERAL.—In addition to any fee oth-  
15                 erwise imposed under this section, the fee imposed  
16                 for requests for advance pricing agreements shall be  
17                 increased by \$500.

18                 “(2) REDUCED FEE FOR SMALL BUSINESSES.—

19                 The Secretary shall provide an appropriate reduction  
20                 in the amount imposed by reason of paragraph (1)  
21                 for requests for advance pricing agreements for  
22                 small businesses.”

23          (d) REGULATIONS.—The Secretary of the Treasury  
24          or the Secretary’s delegate shall prescribe such regulations  
25          as may be necessary or appropriate to carry out the pur-

1 poses of section 6103(b)(2)(C), and the last sentence of  
 2 section 6110(b)(1), of the Internal Revenue Code of 1986,  
 3 as added by this section.

4 **SEC. 912. INCREASE IN DOLLAR LIMITATION ON SECTION**  
 5 **911 EXCLUSION.**

6 (a) GENERAL RULE.—The table contained in clause  
 7 (i) of section 911(b)(2)(D) is amended to read as follows:

<b>“For calendar year—</b>	<b>The exclusion amount is—</b>
2000 .....	\$76,000
2001 .....	78,000
2002 .....	80,000
2003 .....	83,000
2004 .....	86,000
2005 .....	89,000
2006 .....	92,000
2007 and thereafter .....	95,000.”

8 (b) CONFORMING AMENDMENT.—Clause (ii) of sec-  
 9 tion 911(b)(2)(D) is amended by striking “\$80,000” and  
 10 inserting “\$95,000”.

11 (c) EFFECTIVE DATE.—The amendments made by  
 12 this section shall apply to taxable years beginning after  
 13 December 31, 1999.

1 **TITLE X—PROVISIONS RELAT-**  
2 **ING TO TAX-EXEMPT ORGANI-**  
3 **ZATIONS**

4 **SEC. 1001. EXEMPTION FROM INCOME TAX FOR STATE-CRE-**  
5 **ATED ORGANIZATIONS PROVIDING PROP-**  
6 **ERTY AND CASUALTY INSURANCE FOR PROP-**  
7 **ERTY FOR WHICH SUCH COVERAGE IS OTH-**  
8 **ERWISE UNAVAILABLE.**

9 (a) IN GENERAL.—Subsection (c) of section 501 (re-  
10 lating to exemption from tax on corporations, certain  
11 trusts, etc.) is amended by adding at the end the following  
12 new paragraph:

13 “(28)(A) Any association created before Janu-  
14 ary 1, 1999, by State law and organized and oper-  
15 ated exclusively to provide property and casualty in-  
16 surance coverage for property located within the  
17 State for which the State has determined that cov-  
18 erage in the authorized insurance market is limited  
19 or unavailable at reasonable rates, if—

20 “(i) no part of the net earnings of which  
21 inures to the benefit of any private shareholder  
22 or individual,

23 “(ii) except as provided in clause (v), no  
24 part of the assets of which may be used for, or  
25 diverted to, any purpose other than—

1                   “(I) to satisfy, in whole or in part, the  
2                   liability of the association for, or with re-  
3                   spect to, claims made on policies written  
4                   by the association,

5                   “(II) to invest in investments author-  
6                   ized by applicable law, or

7                   “(III) to pay reasonable and nec-  
8                   essary administration expenses in connec-  
9                   tion with the establishment and operation  
10                  of the association and the processing of  
11                  claims against the association,

12                  “(iii) the State law governing the associa-  
13                  tion permits the association to levy assessments  
14                  on property and casualty insurance policy-  
15                  holders with insurable interests in property lo-  
16                  cated in the State to fund deficits of the asso-  
17                  ciation, including the creation of reserves,

18                  “(iv) the plan of operation of the associa-  
19                  tion is subject to approval by the chief executive  
20                  officer or other executive branch official of the  
21                  State, by the State legislature, or both, and

22                  “(v) the assets of the association revert  
23                  upon dissolution to the State, the State’s des-  
24                  ignee, or an entity designated by the State law

1 governing the association, or State law does not  
2 permit the dissolution of the association.

3 “(B)(i) An entity described in clause (ii) shall  
4 be disregarded as a separate entity and treated as  
5 part of the association described in subparagraph  
6 (A) from which it receives remittances described in  
7 clause (ii) if an election is made within 30 days after  
8 the date that such association is determined to be  
9 exempt from tax.

10 “(ii) An entity is described in this clause if it  
11 is an entity or fund created before January 1, 1999,  
12 pursuant to State law and organized and operated  
13 exclusively to receive, hold, and invest remittances  
14 from an association described in subparagraph (A)  
15 and exempt from tax under subsection (a) and to  
16 make disbursements to pay claims on insurance con-  
17 tracts issued by such association.

18 “(C) Subparagraph (A) shall not apply to an  
19 association for any taxable year if the association’s  
20 surplus income for such year exceeds 15 percent of  
21 the total coverage in force under insurance contracts  
22 issued by such association and outstanding as of the  
23 close of the taxable year.”

24 (b) TRANSITIONAL RULE.—No income or gain shall  
25 be recognized by an association as a result of a change

1 in status to that of an association described by section  
2 501(c)(28) of the Internal Revenue Code of 1986, as  
3 amended by subsection (a).

4 (c) EFFECTIVE DATE.—The amendment made by  
5 subsection (a) shall apply to taxable years beginning after  
6 December 31, 1999.

7 **SEC. 1002. MODIFICATION OF SPECIAL ARBITRAGE RULE**  
8 **FOR CERTAIN FUNDS.**

9 (a) IN GENERAL.—Paragraph (1) of section 648 of  
10 the Tax Reform Act of 1984 is amended to read as fol-  
11 lows:

12 “(1) such securities or obligations are held in a  
13 fund—

14 “(A) which, except to the extent of the in-  
15 vestment earnings on such securities or obliga-  
16 tions, cannot be used, under State constitu-  
17 tional or statutory restrictions continuously in  
18 effect since October 9, 1969, through the date  
19 of issue of the bond issue, to pay debt service  
20 on the bond issue or to finance the facilities  
21 that are to be financed with the proceeds of the  
22 bonds, or

23 “(B) the annual distributions from which  
24 cannot exceed 7 percent of the average fair  
25 market value of the assets held in such fund ex-

1           cept to the extent distributions are necessary to  
2           pay debt service on the bond issue,”.

3           (b) CONFORMING AMENDMENT.—Paragraph (3) of  
4   such section is amended by striking “the investment earn-  
5   ings of” and inserting “distributions from”.

6           (c) EFFECTIVE DATE.—The amendments made by  
7   this section shall take effect on January 1, 2000.

8   **SEC. 1003. CHARITABLE SPLIT-DOLLAR LIFE INSURANCE,**  
9                           **ANNUITY, AND ENDOWMENT CONTRACTS.**

10          (a) IN GENERAL.—Subsection (f) of section 170 (re-  
11   lating to disallowance of deduction in certain cases and  
12   special rules) is amended by adding at the end the fol-  
13   lowing new paragraph:

14               “(10) SPLIT-DOLLAR LIFE INSURANCE, ANNU-  
15   ITY, AND ENDOWMENT CONTRACTS.—

16               “(A) IN GENERAL.—Nothing in this sec-  
17   tion or in section 545(b)(2), 556(b)(2), 642(c),  
18   2055, 2106(a)(2), or 2522 shall be construed to  
19   allow a deduction, and no deduction shall be al-  
20   lowed, for any transfer to or for the use of an  
21   organization described in subsection (c) if in  
22   connection with such transfer—

23               “(i) the organization directly or indi-  
24   rectly pays, or has previously paid, any

1 premium on any personal benefit contract  
2 with respect to the transferor, or

3 “(ii) there is an understanding or ex-  
4 pectation that any person will directly or  
5 indirectly pay any premium on any per-  
6 sonal benefit contract with respect to the  
7 transferor.

8 “(B) PERSONAL BENEFIT CONTRACT.—  
9 For purposes of subparagraph (A), the term  
10 ‘personal benefit contract’ means, with respect  
11 to the transferor, any life insurance, annuity, or  
12 endowment contract if any direct or indirect  
13 beneficiary under such contract is the trans-  
14 feror, any member of the transferor’s family, or  
15 any other person (other than an organization  
16 described in subsection (c)) designated by the  
17 transferor.

18 “(C) APPLICATION TO CHARITABLE RE-  
19 MAINDER TRUSTS.—In the case of a transfer to  
20 a trust referred to in subparagraph (E), ref-  
21 erences in subparagraphs (A) and (F) to an or-  
22 ganization described in subsection (c) shall be  
23 treated as a reference to such trust.

24 “(D) EXCEPTION FOR CERTAIN ANNUITY  
25 CONTRACTS.—If, in connection with a transfer



1 to or for the use of an organization described  
2 in subsection (c), such organization incurs an  
3 obligation to pay a charitable gift annuity (as  
4 defined in section 501(m)) and such organiza-  
5 tion purchases any annuity contract to fund  
6 such obligation, persons receiving payments  
7 under the charitable gift annuity shall not be  
8 treated for purposes of subparagraph (B) as in-  
9 direct beneficiaries under such contract if—

10 “(i) such organization possesses all of  
11 the incidents of ownership under such con-  
12 tract,

13 “(ii) such organization is entitled to  
14 all the payments under such contract, and

15 “(iii) the timing and amount of pay-  
16 ments under such contract are substan-  
17 tially the same as the timing and amount  
18 of payments to each such person under  
19 such obligation (as such obligation is in ef-  
20 fect at the time of such transfer).

21 “(E) EXCEPTION FOR CERTAIN CON-  
22 TRACTS HELD BY CHARITABLE REMAINDER  
23 TRUSTS.—A person shall not be treated for pur-  
24 poses of subparagraph (B) as an indirect bene-  
25 ficiary under any life insurance, annuity, or en-

dowment contract held by a charitable remainder annuity trust or a charitable remainder unitrust (as defined in section 664(d)) solely by reason of being entitled to any payment referred to in paragraph (1)(A) or (2)(A) of section 664(d) if—

“(i) such trust possesses all of the incidents of ownership under such contract, and

“(ii) such trust is entitled to all the payments under such contract.

“(F) EXCISE TAX ON PREMIUMS PAID.—

“(i) IN GENERAL.—There is hereby imposed on any organization described in subsection (c) an excise tax equal to the premiums paid by such organization on any life insurance, annuity, or endowment contract if the payment of premiums on such contract is in connection with a transfer for which a deduction is not allowable under subparagraph (A), determined without regard to when such transfer is made.

“(ii) PAYMENTS BY OTHER PERSONS.—For purposes of clause (i), payments made by any other person pursuant

1 to an understanding or expectation re-  
2 ferred to in subparagraph (A) shall be  
3 treated as made by the organization.

4 “(iii) REPORTING.—Any organization  
5 on which tax is imposed by clause (i) with  
6 respect to any premium shall file an an-  
7 nual return which includes—

8 “(I) the amount of such pre-  
9 miums paid during the year and the  
10 name and TIN of each beneficiary  
11 under the contract to which the pre-  
12 mium relates, and

13 “(II) such other information as  
14 the Secretary may require.

15 The penalties applicable to returns re-  
16 quired under section 6033 shall apply to  
17 returns required under this clause. Returns  
18 required under this clause shall be fur-  
19 nished at such time and in such manner as  
20 the Secretary shall by forms or regulations  
21 require.

22 “(iv) CERTAIN RULES TO APPLY.—  
23 The tax imposed by this subparagraph  
24 shall be treated as imposed by chapter 42

1                   for purposes of this title other than sub-  
2                   chapter B of chapter 42.

3                   “(G) SPECIAL RULE WHERE STATE RE-  
4                   QUIRES SPECIFICATION OF CHARITABLE GIFT  
5                   ANNUITANT IN CONTRACT.—In the case of an  
6                   obligation to pay a charitable gift annuity re-  
7                   ferred to in subparagraph (D) which is entered  
8                   into under the laws of a State which requires,  
9                   in order for the charitable gift annuity to be ex-  
10                  empt from insurance regulation by such State,  
11                  that each beneficiary under the charitable gift  
12                  annuity be named as a beneficiary under an an-  
13                  nuity contract issued by an insurance company  
14                  authorized to transact business in such State,  
15                  the requirements of clauses (i) and (ii) of sub-  
16                  paragraph (D) shall be treated as met if—

17                         “(i) such State law requirement was  
18                         in effect on February 8, 1999,

19                         “(ii) each such beneficiary under the  
20                         charitable gift annuity is a bona fide resi-  
21                         dent of such State at the time the obliga-  
22                         tion to pay a charitable gift annuity is en-  
23                         tered into, and

24                         “(iii) the only persons entitled to pay-  
25                         ments under such contract are persons en-

1                   titled to payments as beneficiaries under  
2                   such obligation on the date such obligation  
3                   is entered into.

4                   “(H) MEMBER OF FAMILY.—For purposes  
5                   of this paragraph, an individual’s family con-  
6                   sists of the individual’s grandparents, the  
7                   grandparents of such individual’s spouse, the  
8                   lineal descendants of such grandparents, and  
9                   any spouse of such a lineal descendant.

10                  “(I) REGULATIONS.—The Secretary shall  
11                  prescribe such regulations as may be necessary  
12                  or appropriate to carry out the purposes of this  
13                  paragraph, including regulations to prevent the  
14                  avoidance of such purposes.”

15                  (b) EFFECTIVE DATE.—

16                  (1) IN GENERAL.—Except as otherwise pro-  
17                  vided in this section, the amendment made by this  
18                  section shall apply to transfers made after February  
19                  8, 1999.

20                  (2) EXCISE TAX.—Except as provided in para-  
21                  graph (3) of this subsection, section 170(f)(10)(F)  
22                  of the Internal Revenue Code of 1986 (as added by  
23                  this section) shall apply to premiums paid after the  
24                  date of the enactment of this Act.

1           (3) REPORTING.—Clause (iii) of such section  
2       170(f)(10)(F) shall apply to premiums paid after  
3       February 8, 1999 (determined as if the tax imposed  
4       by such section applies to premiums paid after such  
5       date).

6   **SEC. 1004. EXEMPTION PROCEDURE FROM TAXES ON SELF-**  
7                   **DEALING.**

8       (a) IN GENERAL.—Subsection (d) of section 4941  
9       (relating to taxes on self-dealing) is amended by adding  
10      at the end the following new paragraph:

11           “(3) SPECIAL EXEMPTION.—The Secretary  
12      shall establish an exemption procedure for purposes  
13      of this subsection. Pursuant to such procedure, the  
14      Secretary may grant a conditional or unconditional  
15      exemption of any disqualified person or transaction  
16      or class of disqualified persons or transactions, from  
17      all or part of the restrictions imposed by paragraph  
18      (1). The Secretary may not grant an exemption  
19      under this paragraph unless he finds that such ex-  
20      emption is—

21                   “(A) administratively feasible,

22                   “(B) in the interests of the private founda-  
23      tion, and

24                   “(C) protective of the rights of the private  
25      foundation.

1 Before granting an exemption under this paragraph,  
2 the Secretary shall require adequate notice to be  
3 given to interested persons and shall publish notice  
4 in the Federal Register of the pendency of such ex-  
5 emption and shall afford interested persons an op-  
6 portunity to present views.”.

7 (b) EFFECTIVE DATE.—The amendment made by  
8 this section shall apply to transactions occurring after the  
9 date of the enactment of this Act.

10 **SEC. 1005. EXPANSION OF DECLARATORY JUDGMENT REM-**  
11 **EDY TO TAX-EXEMPT ORGANIZATIONS.**

12 (a) IN GENERAL.—Subsection (a) of section 7428  
13 (relating to creation of remedy) is amended—

14 (1) in subparagraph (B) by inserting after  
15 “509(a))” the following: “or as a private operating  
16 foundation (as defined in section 4942(j)(3))”, and  
17 (2) by amending subparagraph (C) to read as  
18 follows:

19 “(C) with respect to the initial qualifica-  
20 tion or continuing qualification of an organiza-  
21 tion as an organization described in section  
22 501(c) (other than paragraph (3)) which is ex-  
23 empt from tax under section 501(a), or”.

24 (b) COURT JURISDICTION.—Subsection (a) of section  
25 7428 is amended in the material following paragraph (2)

1 by striking “United States Tax Court, the United States  
2 Claims Court, or the district court of the United States  
3 for the District of Columbia” and inserting the following:  
4 “United States Tax Court (in the case of any such deter-  
5 mination or failure) or the United States Claims Court  
6 or the district court of the United States for the District  
7 of Columbia (in the case of a determination or failure with  
8 respect to an issue referred to in subparagraph (A) or (B)  
9 of paragraph (1)),”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to pleadings filed with respect to  
12 determinations (or requests for determinations) made  
13 after the date of the enactment of this Act.

14 **SEC. 1006. MODIFICATIONS TO SECTION 512(b)(13).**

15 (a) IN GENERAL.—Paragraph (13) of section 512(b)  
16 is amended by redesignating subparagraph (E) as sub-  
17 paragraph (F) and by inserting after subparagraph (D)  
18 the following new paragraph:

19 “(E) PARAGRAPH TO APPLY ONLY TO EX-  
20 CESS PAYMENTS.—

21 “(i) IN GENERAL.—Subparagraph (A)  
22 shall apply only to the portion of a speci-  
23 fied payment received by the controlling  
24 organization that exceeds the amount  
25 which would have been paid if such pay-



1                   ment met the requirements prescribed  
2                   under section 482.

3                   “(ii) ADDITION TO TAX FOR VALU-  
4                   ATION MISSTATEMENTS.—The tax imposed  
5                   by this chapter on the controlling organiza-  
6                   tion shall be increased by an amount equal  
7                   to 20 percent of such excess.”

8                   (b) EFFECTIVE DATE.—

9                   (1) IN GENERAL.—The amendment made by  
10                  this section shall apply to payments received or ac-  
11                  crued after December 31, 1999.

12                  (2) PAYMENTS SUBJECT TO BINDING CONTRACT  
13                  TRANSITION RULE.—If the amendments made by  
14                  section 1041 of the Taxpayer Relief Act of 1997 do  
15                  not apply to any amount received or accrued after  
16                  the date of the enactment of this Act under any con-  
17                  tract described in subsection (b)(2) of such section,  
18                  such amendments also shall not apply to amounts  
19                  received or accrued under such contract before Jan-  
20                  uary 1, 2000.

1           **TITLE XI—REAL ESTATE**  
2                   **PROVISIONS**  
3       **Subtitle A—Provisions Relating to**  
4       **Real Estate Investment Trusts**  
5       **PART I—TREATMENT OF INCOME AND SERVICES**  
6       **PROVIDED BY TAXABLE REIT SUBSIDIARIES**  
7       **SEC. 1101. MODIFICATIONS TO ASSET DIVERSIFICATION**  
8                   **TEST.**

9           (a) IN GENERAL.—Subparagraph (B) of section  
10 856(c)(4) is amended to read as follows:

11                   “(B)(i) not more than 25 percent of the  
12                   value of its total assets is represented by securi-  
13                   ties (other than those includible under subpara-  
14                   graph (A)), and

15                   “(ii) except with respect to a taxable REIT  
16                   subsidiary and securities includible under sub-  
17                   paragraph (A)—

18                   “(I) not more than 5 percent of the  
19                   value of its total assets is represented by  
20                   securities of any 1 issuer,

21                   “(II) the trust does not hold securities  
22                   possessing more than 10 percent of the  
23                   total voting power of the outstanding secu-  
24                   rities of any 1 issuer, and

1 “(III) the trust does not hold securi-  
2 ties having a value of more than 10 per-  
3 cent of the total value of the outstanding  
4 securities of any 1 issuer.”

5 (b) EXCEPTION FOR STRAIGHT DEBT SECURITIES.—  
6 Subsection (c) of section 856 is amended by adding at the  
7 end the following new paragraph:

8 “(7) STRAIGHT DEBT SAFE HARBOR IN APPLY-  
9 ING PARAGRAPH (4).—Securities of an issuer which  
10 are straight debt (as defined in section 1361(c)(5)  
11 without regard to subparagraph (B)(iii) thereof)  
12 shall not be taken into account in applying para-  
13 graph (4)(B)(ii)(III) if—

14 “(A) the only securities of such issuer  
15 which are held by the trust or a taxable REIT  
16 subsidiary of the trust are straight debt (as so  
17 defined), or

18 “(B) the issuer is a partnership and the  
19 trust holds at least a 20 percent profits interest  
20 in the partnership.”

21 **SEC. 1102. TREATMENT OF INCOME AND SERVICES PRO-**  
22 **VIDED BY TAXABLE REIT SUBSIDIARIES.**

23 (a) INCOME FROM TAXABLE REIT SUBSIDIARIES  
24 NOT TREATED AS IMPERMISSIBLE TENANT SERVICE IN-  
25 COME.—Clause (i) of section 856(d)(7)(C) (relating to ex-

1 ceptions to impermissible tenant service income) is amend-  
2 ed by inserting “or through a taxable REIT subsidiary  
3 of such trust” after “income”.

4 (b) CERTAIN INCOME FROM TAXABLE REIT SUB-  
5 SIDIARIES NOT EXCLUDED FROM RENTS FROM REAL  
6 PROPERTY.—

7 (1) IN GENERAL.—Subsection (d) of section  
8 856 (relating to rents from real property defined) is  
9 amended by adding at the end the following new  
10 paragraphs:

11 “(8) SPECIAL RULE FOR TAXABLE REIT SUB-  
12 SIDIARIES.—For purposes of this subsection,  
13 amounts paid to a real estate investment trust by a  
14 taxable REIT subsidiary of such trust shall not be  
15 excluded from rents from real property by reason of  
16 paragraph (2)(B) if the requirements of subpara-  
17 graph (A) or (B) are met.

18 “(A) LIMITED RENTAL EXCEPTION.—The  
19 requirements of this subparagraph are met with  
20 respect to any property if at least 90 percent of  
21 the leased space of the property is rented to  
22 persons other than taxable REIT subsidiaries of  
23 such trust and other than persons described in  
24 section 856(d)(2)(B). The preceding sentence  
25 shall apply only to the extent that the amounts

1           paid to the trust as rents from real property (as  
2           defined in paragraph (1) without regard to  
3           paragraph (2)(B)) from such property are sub-  
4           stantially comparable to such rents made by the  
5           other tenants of the trust's property for com-  
6           parable space.

7           “(B) EXCEPTION FOR CERTAIN LODGING  
8           FACILITIES.—The requirements of this subpara-  
9           graph are met with respect to an interest in  
10          real property which is a qualified lodging facil-  
11          ity leased by the trust to a taxable REIT sub-  
12          sidiary of the trust if the property is operated  
13          on behalf of such subsidiary by a person who is  
14          an eligible independent contractor.

15          “(9) ELIGIBLE INDEPENDENT CONTRACTOR.—  
16          For purposes of paragraph (8)(B)—

17                 “(A) IN GENERAL.—The term ‘eligible  
18                 independent contractor’ means, with respect to  
19                 any qualified lodging facility, any independent  
20                 contractor if, at the time such contractor enters  
21                 into a management agreement or other similar  
22                 service contract with the taxable REIT sub-  
23                 sidiary to operate the facility, such contractor  
24                 (or any related person) is actively engaged in  
25                 the trade or business of operating qualified

1           lodging facilities for any person who is not a re-  
2           lated person with respect to the real estate in-  
3           vestment trust or the taxable REIT subsidiary.

4           “(B) SPECIAL RULES.—Solely for purposes  
5           of this paragraph and paragraph (8)(B), a per-  
6           son shall not fail to be treated as an inde-  
7           pendent contractor with respect to any qualified  
8           lodging facility by reason of any of the fol-  
9           lowing:

10           “(i) The taxable REIT subsidiary  
11           bears the expenses for the operation of the  
12           facility pursuant to the management agree-  
13           ment or other similar service contract.

14           “(ii) The taxable REIT subsidiary re-  
15           ceives the revenues from the operation of  
16           such facility, net of expenses for such oper-  
17           ation and fees payable to the operator pur-  
18           suant to such agreement or contract.

19           “(iii) The real estate investment trust  
20           receives income from such person with re-  
21           spect to another property that is attrib-  
22           utable to a lease of such other property to  
23           such person that was in effect as on the  
24           later of—

25           “(I) January 1, 1999, or

1                   “(II) the earliest date that any  
2                   taxable REIT subsidiary of such trust  
3                   entered into a management agreement  
4                   or other similar service contract with  
5                   such person with respect to such  
6                   qualified lodging facility.

7                   “(C) RENEWALS, ETC., OF EXISTING  
8                   LEASES.—For purposes of subparagraph  
9                   (B)(iii)—

10                   “(i) a lease shall be treated as in ef-  
11                   fect on January 1, 1999, without regard to  
12                   its renewal after such date, so long as such  
13                   renewal is pursuant to the terms of such  
14                   lease as in effect on whichever of the dates  
15                   under subparagraph (B)(iii) is the latest,  
16                   and

17                   “(ii) a lease of a property entered into  
18                   after whichever of the dates under sub-  
19                   paragraph (B)(iii) is the latest shall be  
20                   treated as in effect on such date if—

21                   “(I) on such date, a lease of such  
22                   property from the trust was in effect,  
23                   and

24                   “(II) under the terms of the new  
25                   lease, such trust receives a substan-

1                   tially similar or lesser benefit in com-  
2                   parison to the lease referred to in sub-  
3                   clause (I).

4                   “(D) QUALIFIED LODGING FACILITY.—For  
5                   purposes of this paragraph—

6                   “(i) IN GENERAL.—The term ‘quali-  
7                   fied lodging facility’ means any lodging fa-  
8                   cility unless wagering activities are con-  
9                   ducted at or in connection with such facil-  
10                  ity by any person who is engaged in the  
11                  business of accepting wagers and who is le-  
12                  gally authorized to engage in such business  
13                  at or in connection with such facility.

14                  “(ii) LODGING FACILITY.—The term  
15                  ‘lodging facility’ means a hotel, motel, or  
16                  other establishment more than one-half of  
17                  the dwelling units in which are used on a  
18                  transient basis.

19                  “(iii) CUSTOMARY AMENITIES AND FA-  
20                  CILITIES.—The term ‘lodging facility’ in-  
21                  cludes customary amenities and facilities  
22                  operated as part of, or associated with, the  
23                  lodging facility so long as such amenities  
24                  and facilities are customary for other prop-  
25                  erties of a comparable size and class owned



1 by other owners unrelated to such real es-  
2 tate investment trust.

3                   “(E) OPERATE INCLUDES MANAGE.—Ref-  
4                   erences in this paragraph to operating a prop-  
5                   erty shall be treated as including a reference to  
6                   managing the property.

7                   “(F) RELATED PERSON.—Persons shall be  
8                   treated as related to each other if such persons  
9                   are treated as a single employer under sub-  
10                  section (a) or (b) of section 52.”.

(2) CONFORMING AMENDMENT.—Subparagraph  
(B) of section 856(d)(2) is amended by inserting  
“except as provided in paragraph (8),” after “(B)”.

**14 SEC. 1103. TAXABLE REIT SUBSIDIARY.**

15 (a) IN GENERAL.—Section 856 is amended by adding  
16 at the end the following new subsection:

17           “(l) TAXABLE REIT SUBSIDIARY.—For purposes of  
18 this part—

“(1) IN GENERAL.—The term ‘taxable REIT subsidiary’ means, with respect to a real estate investment trust, a corporation (other than a real estate investment trust) if—

23 “(A) such trust directly or indirectly owns  
24 stock in such corporation, and

1                   “(B) such trust and such corporation joint-  
2                   ly elect that such corporation shall be treated as  
3                   a taxable REIT subsidiary of such trust for  
4                   purposes of this part.

5                   Such an election, once made, shall be irrevocable un-  
6                   less both such trust and corporation consent to its  
7                   revocation. Such election, and any revocation there-  
8                   of, may be made without the consent of the Sec-  
9                   retary.

10                  “(2) 35 PERCENT OWNERSHIP IN ANOTHER  
11                  TAXABLE REIT SUBSIDIARY.—The term ‘taxable  
12                  REIT subsidiary’ includes, with respect to any real  
13                  estate investment trust, any corporation (other than  
14                  a real estate investment trust) with respect to which  
15                  a taxable REIT subsidiary of such trust owns di-  
16                  rectly or indirectly—

17                  “(A) securities possessing more than 35  
18                  percent of the total voting power of the out-  
19                  standing securities of such corporation, or

20                  “(B) securities having a value of more  
21                  than 35 percent of the total value of the out-  
22                  standing securities of such corporation.

23                  The preceding sentence shall not apply to a qualified  
24                  REIT subsidiary (as defined in subsection (i)(2)).

1       The rule of section 856(c)(7) shall apply for pur-  
2       poses of subparagraph (B).

3           “(3) EXCEPTIONS.—The term ‘taxable REIT  
4       subsidiary’ shall not include—

5           “(A) any corporation which directly or in-  
6       directly operates or manages a lodging facility  
7       or a health care facility, and

8           “(B) any corporation which directly or in-  
9       directly provides to any other person (under a  
10      franchise, license, or otherwise) rights to any  
11      brand name under which any lodging facility or  
12      health care facility is operated.

13      Subparagraph (B) shall not apply to rights provided  
14      to an eligible independent contractor to operate or  
15      manage a lodging facility if such rights are held by  
16      such corporation as a franchisee, licensee, or in a  
17      similar capacity and such lodging facility is either  
18      owned by such corporation or is leased to such cor-  
19      poration from the real estate investment trust.

20           “(4) DEFINITIONS.—For purposes of paragraph  
21      (3)—

22           “(A) LODGING FACILITY.—The term ‘lodg-  
23      ing facility’ has the meaning given to such term  
24      by paragraph (9)(D)(ii).

1                   “(B) HEALTH CARE FACILITY.—The term  
2                   ‘health care facility’ has the meaning given to  
3                   such term by subsection (e)(6)(D)(ii).”.

4           (b) CONFORMING AMENDMENT.—Paragraph (2) of  
5   section 856(i) is amended by adding at the end the fol-  
6   lowing new sentence: “Such term shall not include a tax-  
7   able REIT subsidiary.”

8   **SEC. 1104. LIMITATION ON EARNINGS STRIPPING.**

9           Paragraph (3) of section 163(j) (relating to limitation  
10   on deduction for interest on certain indebtedness) is  
11   amended by striking “and” at the end of subparagraph  
12   (A), by striking the period at the end of subparagraph  
13   (B) and inserting “, and”, and by adding at the end the  
14   following new subparagraph:

15                   “(C) any interest paid or accrued (directly  
16                   or indirectly) by a taxable REIT subsidiary (as  
17                   defined in section 856(l)) of a real estate invest-  
18                   ment trust to such trust.”.

19   **SEC. 1105. 100 PERCENT TAX ON IMPROPERLY ALLOCATED**  
20                   **AMOUNTS.**

21           (a) IN GENERAL.—Subsection (b) of section 857 (re-  
22   lating to method of taxation of real estate investment  
23   trusts and holders of shares or certificates of beneficial  
24   interest) is amended by redesignating paragraphs (7) and

1 (8) as paragraphs (8) and (9), respectively, and by insert-  
2 ing after paragraph (6) the following new paragraph:

3 “(7) INCOME FROM REDETERMINED RENTS, RE-  
4 DETERMINED DEDUCTIONS, AND EXCESS INTER-  
5 EST.—

6 “(A) IMPOSITION OF TAX.—There is here-  
7 by imposed for each taxable year of the real es-  
8 tate investment trust a tax equal to 100 percent  
9 of redetermined rents, redetermined deductions,  
10 and excess interest.

11 “(B) REDETERMINED RENTS.—

12 “(i) IN GENERAL.—The term ‘redeter-  
13 mined rents’ means rents from real prop-  
14 erty (as defined in subsection 856(d)) the  
15 amount of which would (but for subpara-  
16 graph (E)) be reduced on distribution, ap-  
17 portionment, or allocation under section  
18 482 to clearly reflect income as a result of  
19 services furnished or rendered by a taxable  
20 REIT subsidiary of the real estate invest-  
21 ment trust to a tenant of such trust.

22 “(ii) EXCEPTION FOR CERTAIN SERV-  
23 ICES.—Clause (i) shall not apply to  
24 amounts received directly or indirectly by a  
25 real estate investment trust for services de-

1           scribed in paragraph (1)(B) or (7)(C)(i) of  
2           section 856(d).

3           “(iii) EXCEPTION FOR DE MINIMIS  
4           AMOUNTS.—Clause (i) shall not apply to  
5           amounts described in section 856(d)(7)(A)  
6           with respect to a property to the extent  
7           such amounts do not exceed the one per-  
8           cent threshold described in section  
9           856(d)(7)(B) with respect to such prop-  
10          erty.

11          “(iv) EXCEPTION FOR COMPARABLY  
12          PRICED SERVICES.—Clause (i) shall not  
13          apply to any service rendered by a taxable  
14          REIT subsidiary of a real estate invest-  
15          ment trust to a tenant of such trust if—

16               “(I) such subsidiary renders a  
17               significant amount of similar services  
18               to persons other than such trust and  
19               tenants of such trust who are unre-  
20               lated (within the meaning of section  
21               856(d)(8)(F)) to such subsidiary,  
22               trust, and tenants, but

23               “(II) only to the extent the  
24               charge for such service so rendered is  
25               substantially comparable to the charge

1 for the similar services rendered to  
2 persons referred to in subclause (I).

3 “(v) EXCEPTION FOR CERTAIN SEPA-  
4 RATELY CHARGED SERVICES.—Clause (i)  
5 shall not apply to any service rendered by  
6 a taxable REIT subsidiary of a real estate  
7 investment trust to a tenant of such trust  
8 if—

9 “(I) the rents paid to the trust  
10 by tenants (leasing at least 25 percent  
11 of the net leasable space in the trust’s  
12 property) who are not receiving such  
13 service from such subsidiary are sub-  
14 stantially comparable to the rents  
15 paid by tenants leasing comparable  
16 space who are receiving such service  
17 from such subsidiary, and

18 “(II) the charge for such service  
19 from such subsidiary is separately  
20 stated.

21 “(vi) EXCEPTION FOR CERTAIN SERV-  
22 ICES BASED ON SUBSIDIARY’S INCOME  
23 FROM THE SERVICES.—Clause (i) shall not  
24 apply to any service rendered by a taxable  
25 REIT subsidiary of a real estate invest-

1                   ment trust to a tenant of such trust if the  
2                   gross income of such subsidiary from such  
3                   service is not less than 150 percent of such  
4                   subsidiary's direct cost in furnishing or  
5                   rendering the service.

6                   “(vii) EXCEPTIONS GRANTED BY SEC-  
7                   RETARY.—The Secretary may waive the  
8                   tax otherwise imposed by subparagraph  
9                   (A) if the trust establishes to the satisfac-  
10                  tion of the Secretary that rents charged to  
11                  tenants were established on an arms'  
12                  length basis even though a taxable REIT  
13                  subsidiary of the trust provided services to  
14                  such tenants.

15                 “(C) REDETERMINED DEDUCTIONS.—The  
16                 term ‘redetermined deductions’ means deduc-  
17                 tions (other than redetermined rents) of a tax-  
18                 able REIT subsidiary of a real estate invest-  
19                 ment trust if the amount of such deductions  
20                 would (but for subparagraph (E)) be increased  
21                 on distribution, apportionment, or allocation  
22                 under section 482 to clearly reflect income as  
23                 between such subsidiary and such trust.

24                 “(D) EXCESS INTEREST.—The term ‘ex-  
25                 cess interest’ means any deductions for interest



1           payments by a taxable REIT subsidiary of a  
2           real estate investment trust to such trust to the  
3           extent that the interest payments are in excess  
4           of a rate that is commercially reasonable.

5           “(E) COORDINATION WITH SECTION 482.—  
6           The imposition of tax under subparagraph (A)  
7           shall be in lieu of any distribution, apportion-  
8           ment, or allocation under section 482.

9           “(F) REGULATORY AUTHORITY.—The Sec-  
10          retary shall prescribe such regulations as may  
11          be necessary or appropriate to carry out the  
12          purposes of this paragraph. Until the Secretary  
13          prescribes such regulations, real estate invest-  
14          ment trusts and their taxable REIT subsidi-  
15          aries may base their allocations on any reason-  
16          able method.”.

17          (b) AMOUNT SUBJECT TO TAX NOT REQUIRED TO  
18          BE DISTRIBUTED.—Subparagraph (E) of section  
19          857(b)(2) (relating to real estate investment trust taxable  
20          income) is amended by striking “paragraph (5)” and in-  
21          serting “paragraphs (5) and (7)”.

22          **SEC. 1106. EFFECTIVE DATE.**

23          (a) IN GENERAL.—The amendments made by this  
24          part shall apply to taxable years beginning after December  
25          31, 2000.

1       (b) TRANSITIONAL RULES RELATED TO SECTION  
2 1101.—

3           (1) EXISTING ARRANGEMENTS.—

4           (A) IN GENERAL.—Except as otherwise  
5 provided in this paragraph, the amendment  
6 made by section 1101 shall not apply to a real  
7 estate investment trust with respect to—

8           (i) securities of a corporation held di-  
9 rectly or indirectly by such trust on July  
10 12, 1999,

11          (ii) securities of a corporation held by  
12 an entity on July 12, 1999, if such trust  
13 acquires control of such entity pursuant to  
14 a written binding contract in effect on such  
15 date and at all times thereafter before such  
16 acquisition,

17          (iii) securities received by such trust  
18 (or a successor) in exchange for, or with  
19 respect to, securities described in clause (i)  
20 or (ii) in a transaction in which gain or  
21 loss is not recognized, and

22          (iv) securities acquired directly or in-  
23 directly by such trust as part of a reorga-  
24 nization (as defined in section 368(a)(1) of  
25 the Internal Revenue Code of 1986) with

1           respect to such trust if such securities are  
2           described in clause (i), (ii), or (iii) with re-  
3           spect to any other real estate investment  
4           trust.

5           (B) NEW TRADE OR BUSINESS OR SUB-  
6           STANTIAL NEW ASSETS.—Subparagraph (A)  
7           shall cease to apply to securities of a corpora-  
8           tion as of the first day after July 12, 1999, on  
9           which such corporation engages in a substantial  
10          new line of business, or acquires any substantial  
11          asset, other than—

12                 (i) pursuant to a binding contract in  
13                 effect on such date and at all times there-  
14                 after before the acquisition of such asset,

15                 (ii) in a transaction in which gain or  
16                 loss is not recognized by reason of section  
17                 1031 or 1033 of the Internal Revenue  
18                 Code of 1986, or

19                 (iii) in a reorganization (as so de-  
20                 fined) with another corporation the securi-  
21                 ties of which are described in paragraph  
22                 (1)(A) of this subsection.

23          (2) TAX-FREE CONVERSION.—If—

24                 (A) at the time of an election for a cor-  
25                 poration to become a taxable REIT subsidiary,

1 the amendment made by section 1101 does not  
2 apply to such corporation by reason of para-  
3 graph (1), and

4 (B) such election first takes effect before  
5 January 1, 2004,

6 such election shall be treated as a reorganization  
7 qualifying under section 368(a)(1)(A) of such Code.

8 **PART II—HEALTH CARE REITS**

9 **SEC. 1111. HEALTH CARE REITS.**

10 (a) SPECIAL FORECLOSURE RULE FOR HEALTH  
11 CARE PROPERTIES.—Subsection (e) of section 856 (relat-  
12 ing to special rules for foreclosure property) is amended  
13 by adding at the end the following new paragraph:

14 “(6) SPECIAL RULE FOR QUALIFIED HEALTH  
15 CARE PROPERTIES.—For purposes of this  
16 subsection—

17 “(A) ACQUISITION AT EXPIRATION OF  
18 LEASE.—The term ‘foreclosure property’ shall  
19 include any qualified health care property ac-  
20 quired by a real estate investment trust as the  
21 result of the termination of a lease of such  
22 property (other than a termination by reason of  
23 a default, or the imminence of a default, on the  
24 lease).

1           “(B) GRACE PERIOD.—In the case of a  
2           qualified health care property which is fore-  
3           closure property solely by reason of subpara-  
4           graph (A), in lieu of applying paragraphs (2)  
5           and (3)—

6                   “(i) the qualified health care property  
7                   shall cease to be foreclosure property as of  
8                   the close of the second taxable year after  
9                   the taxable year in which such trust ac-  
10                  quired such property, and

11                   “(ii) if the real estate investment  
12                   trust establishes to the satisfaction of the  
13                   Secretary that an extension of the grace  
14                   period in clause (i) is necessary to the or-  
15                   derly leasing or liquidation of the trust’s  
16                   interest in such qualified health care prop-  
17                   erty, the Secretary may grant 1 or more  
18                   extensions of the grace period for such  
19                   qualified health care property.

20           Any such extension shall not extend the grace  
21           period beyond the close of the 6th year after  
22           the taxable year in which such trust acquired  
23           such qualified health care property.

24           “(C) INCOME FROM INDEPENDENT CON-  
25           TRACTORS.—For purposes of applying para-

graph (4)(C) with respect to qualified health care property which is foreclosure property by reason of subparagraph (A) or paragraph (1), income derived or received by the trust from an independent contractor shall be disregarded to the extent such income is attributable to—

“(i) any lease of property in effect on the date the real estate investment trust acquired the qualified health care property (without regard to its renewal after such date so long as such renewal is pursuant to the terms of such lease as in effect on such date), or

“(ii) any lease of property entered into after such date if—

“(I) on such date, a lease of such property from the trust was in effect, and

“(II) under the terms of the new lease, such trust receives a substantially similar or lesser benefit in comparison to the lease referred to in subclause (I).

“(D) QUALIFIED HEALTH CARE PROPERTY.—

1                   “(i) IN GENERAL.—The term ‘quali-  
2                   fied health care property’ means any real  
3                   property (including interests therein), and  
4                   any personal property incident to such real  
5                   property, which—

6                                 “(I) is a health care facility, or  
7                                 “(II) is necessary or incidental to  
8                   the use of a health care facility.

9                   “(ii) HEALTH CARE FACILITY.—For  
10                  purposes of clause (i), the term ‘health  
11                  care facility’ means a hospital, nursing fa-  
12                  cility, assisted living facility, congregate  
13                  care facility, qualified continuing care facil-  
14                  ity (as defined in section 7872(g)(4)), or  
15                  other licensed facility which extends med-  
16                  ical or nursing or ancillary services to pa-  
17                  tients and which, immediately before the  
18                  termination, expiration, default, or breach  
19                  of the lease of or mortgage secured by  
20                  such facility, was operated by a provider of  
21                  such services which was eligible for partici-  
22                  pation in the medicare program under title  
23                  XVIII of the Social Security Act with re-  
24                  spect to such facility.”

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 2000.

4 **PART III—CONFORMITY WITH REGULATED**  
5 **INVESTMENT COMPANY RULES**

6 **SEC. 1121. CONFORMITY WITH REGULATED INVESTMENT**  
7 **COMPANY RULES.**

8 (a) DISTRIBUTION REQUIREMENT.—Clauses (i) and  
9 (ii) of section 857(a)(1)(A) (relating to requirements ap-  
10 plicable to real estate investment trusts) are each amended  
11 by striking “95 percent (90 percent for taxable years be-  
12 ginning before January 1, 1980)” and inserting “90 per-  
13 cent”.

14 (b) IMPOSITION OF TAX.—Clause (i) of section  
15 857(b)(5)(A) (relating to imposition of tax in case of fail-  
16 ure to meet certain requirements) is amended by striking  
17 “95 percent (90 percent in the case of taxable years begin-  
18 ning before January 1, 1980)” and inserting “90 per-  
19 cent”.

20 (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2000.



1   **PART IV—CLARIFICATION OF EXCEPTION FROM**  
2       **IMPERMISSIBLE TENANT SERVICE INCOME**  
3   **SEC. 1131. CLARIFICATION OF EXCEPTION FOR INDE-**  
4       **PENDENT OPERATORS.**

5       (a) IN GENERAL.—Paragraph (3) of section 856(d)  
6 (relating to independent contractor defined) is amended  
7 by adding at the end the following flush sentence:

8       “In the event that any class of stock of either the  
9       real estate investment trust or such person is regu-  
10      larly traded on an established securities market, only  
11      persons who own, directly or indirectly, more than 5  
12      percent of such class of stock shall be taken into ac-  
13      count as owning any of the stock of such class for  
14      purposes of applying the 35 percent limitation set  
15      forth in subparagraph (B) (but all of the out-  
16      standing stock of such class shall be considered out-  
17      standing in order to compute the denominator for  
18      purpose of determining the applicable percentage of  
19      ownership).”

20      (b) EFFECTIVE DATE.—The amendment made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2000.

1       **PART V—MODIFICATION OF EARNINGS AND**  
2                               **PROFITS RULES**

3   **SEC. 1141. MODIFICATION OF EARNINGS AND PROFITS**  
4                               **RULES.**

5       (a) RULES FOR DETERMINING WHETHER REGU-  
6   LATED INVESTMENT COMPANY HAS EARNINGS AND  
7   PROFITS FROM NON-RIC YEAR.—Subsection (c) of sec-  
8   tion 852 is amended by adding at the end the following  
9   new paragraph:

10               “(3) DISTRIBUTIONS TO MEET REQUIREMENTS  
11       OF SUBSECTION (a)(2)(B).—Any distribution which  
12       is made in order to comply with the requirements of  
13       subsection (a)(2)(B)—

14               “(A) shall be treated for purposes of this  
15       subsection and subsection (a)(2)(B) as made  
16       from the earliest earnings and profits accumu-  
17       lated in any taxable year to which the provi-  
18       sions of this part did not apply rather than the  
19       most recently accumulated earnings and profits,  
20       and

21               “(B) to the extent treated under subpara-  
22       graph (A) as made from accumulated earnings  
23       and profits, shall not be treated as a distribu-  
24       tion for purposes of subsection (b)(2)(D) and  
25       section 855.”.

1 (b) CLARIFICATION OF APPLICATION OF REIT  
2 SPILLOVER DIVIDEND RULES TO DISTRIBUTIONS TO  
3 MEET QUALIFICATION REQUIREMENT.—Subparagraph  
4 (B) of section 857(d)(3) is amended by inserting before  
5 the period “and section 858”.

6 (c) APPLICATION OF DEFICIENCY DIVIDEND PROCE-  
7 DURES.—Paragraph (1) of section 852(e) is amended by  
8 adding at the end the following new sentence: “If the de-  
9 termination under subparagraph (A) is solely as a result  
10 of the failure to meet the requirements of subsection  
11 (a)(2), the preceding sentence shall also apply for pur-  
12 poses of applying subsection (a)(2) to the non-RIC year.”

13 (d) EFFECTIVE DATE.—The amendments made by  
14 this section shall apply to distributions after December 31,  
15 2000.

16 **PART VI—STUDY RELATING TO TAXABLE REIT**  
17 **SUBSIDIARIES**

18 **SEC. 1151. STUDY RELATING TO TAXABLE REIT SUBSIDI-**  
19 **ARIES.**

20 The Commissioner of the Internal Revenue shall con-  
21 duct a study to determine how many taxable REIT sub-  
22 sidiaries are in existence and the aggregate amount of  
23 taxes paid by such subsidiaries. The Secretary shall sub-  
24 mit a report to the Congress describing the results of such  
25 study.

1 **Subtitle B—Modification of At-Risk**  
2 **Rules for Publicly Traded Secu-**  
3 **rities**

4 **SEC. 1161. TREATMENT UNDER AT-RISK RULES OF PUB-**  
5 **LICLY TRADED NONRECOURSE DEBT.**

6 (a) IN GENERAL.—Subparagraph (A) of section  
7 465(b)(6) (relating to qualified nonrecourse financing  
8 treated as amount at risk) is amended by striking “share  
9 of” and all that follows and inserting “share of—

10 “(i) any qualified nonrecourse financ-  
11 ing which is secured by real property used  
12 in such activity, and

13 “(ii) any other financing which—

14 “(I) would (but for subparagraph  
15 (B)(ii)) be qualified nonrecourse fi-  
16 nancing,

17 “(II) is qualified publicly traded  
18 debt, and

19 “(III) is not borrowed by the tax-  
20 payer from a person described in sub-  
21 clause (I), (II), or (III) of section  
22 49(a)(1)(D)(iv).”

23 (b) QUALIFIED PUBLICLY TRADED DEBT.—Para-  
24 graph (6) of section 465(b) is amended by adding at the  
25 end the following new subparagraph:

1                   “(F) QUALIFIED PUBLICLY TRADED  
2                   DEBT.—For purposes of subparagraph (A), the  
3                   term ‘qualified publicly traded debt’ means any  
4                   debt instrument which is readily tradable on an  
5                   established securities market. Such term shall  
6                   not include any debt instrument which has a  
7                   yield to maturity which equals or exceeds the  
8                   limitation in section 163(i)(1)(B).”

9           (c) EFFECTIVE DATE.—The amendments made by  
10          this section shall apply to debt instruments issued after  
11          December 31, 1999.

12       **Subtitle C—Treatment of Construc-**  
13       **tion Allowances and Certain**  
14       **Contributions To Capital of Re-**  
15       **tailers**

16       **SEC. 1171. EXCLUSION FROM GROSS INCOME OF QUALI-**  
17       **FIED LESSEE CONSTRUCTION ALLOWANCES**  
18       **NOT LIMITED FOR CERTAIN RETAILERS TO**  
19       **SHORT-TERM LEASES.**

20           (a) IN GENERAL.—Subsection (a) section 110 (relat-  
21          ing to qualified lessee construction allowances for short-  
22          term leases) is amended by adding at the end the following  
23          new sentence: “Paragraph (1) shall not apply if the lessee  
24          is a qualified retail business (as defined by section  
25          118(d)(3)).”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to leases entered into after Decem-  
3 ber 31, 1999.

4 **SEC. 1172. EXCLUSION FROM GROSS INCOME FOR CERTAIN**  
5 **CONTRIBUTIONS TO THE CAPITAL OF CER-**  
6 **TAIN RETAILERS.**

7 (a) IN GENERAL.—Section 118 (relating to contribu-  
8 tions to the capital of a corporation) is amended by redes-  
9 ignating subsections (d) and (e) as subsections (e) and (f),  
10 respectively, and by inserting after subsection (c) the fol-  
11 lowing new subsection:

12 “(d) SAFE HARBOR FOR CONTRIBUTIONS TO CER-  
13 TAIN RETAILERS.—

14 “(1) GENERAL RULE.—For purposes of this  
15 section, the term ‘contribution to the capital of the  
16 taxpayer’ includes any amount of money or other  
17 property received by the taxpayer if—

18 “(A) the taxpayer has entered into an  
19 agreement to operate (or cause to be operated)  
20 a qualified retail business at a particular loca-  
21 tion for a period of at least 15 years,

22 “(B)(i) immediately after the receipt of  
23 such money or other property, the taxpayer  
24 owns the land and the structure to be used by

1           the taxpayer in carrying on a qualified retail  
2           business at such location, or

3                 “(ii) the taxpayer uses such amount to ac-  
4           quire ownership of at least such land and struc-  
5           ture,

6                 “(C) such amount meets the requirements  
7           of the expenditure rule of paragraph (2), and

8                 “(D) the contributor of such amount does  
9           not hold a beneficial interest in any property lo-  
10          cated on the premises of such qualified retail  
11          business other than de minimis amounts of  
12          property associated with the operation of prop-  
13          erty adjacent to such premises.

14               “(2) EXPENDITURE RULE.—An amount meets  
15          the requirements of this paragraph if—

16                 “(A) an amount equal to such amount is  
17           expended for the acquisition of land or for ac-  
18           quisition or construction of other property de-  
19           scribed in section 1231(b)—

20                         “(i) which was the purpose motivating  
21           the contribution, and

22                         “(ii) which is used predominantly in a  
23           qualified retail business at the location re-  
24           ferred to in paragraph (1)(A),

1           “(B) the expenditure referred to in sub-  
2           paragraph (A) occurs before the end of the sec-  
3           ond taxable year after the year in which such  
4           amount was received, and

5           “(C) accurate records are kept of the  
6           amounts contributed and expenditures made on  
7           the basis of the project for which the contribu-  
8           tion was made and on the basis of the year of  
9           the contribution expenditure.

10          “(3) DEFINITION OF QUALIFIED RETAIL BUSI-  
11          NESS.—

12               “(A) IN GENERAL.—Except as provided in  
13               subparagraph (B), the term ‘qualified retail  
14               business’ means a trade or business of selling  
15               tangible personal property to the general public  
16               if the premises on which such trade or business  
17               is conducted is in close proximity to property  
18               that the contributor of the amount referred to  
19               in paragraph (1) is developing or operating for  
20               profit (or, in the case of a contributor which is  
21               a governmental entity, is attempting to revi-  
22               talize).

23               “(B) SERVICES.—A trade or business shall  
24               not fail to be treated as a qualified retail busi-  
25               ness by reason of sales of services if such sales



1           are incident to the sale of tangible personal  
2           property or if the services are de minimis in  
3           amount.

4           “(4) SPECIAL RULES.—

5                 “(A) LEASES.—For purposes of paragraph  
6           (1)(B)(i), property shall be treated as owned by  
7           the taxpayer if the taxpayer is the lessee of  
8           such property under a lease having a term of at  
9           least 30 years and on which only nominal rent  
10          is required.

11                “(B) CONTROLLED GROUPS.—For pur-  
12          poses of this subsection, all persons treated as  
13          a single employer under subsection (a) or (b) of  
14          section 52 shall be treated as 1 person.

15                “(5) DISALLOWANCE OF DEDUCTIONS AND  
16          CREDITS; ADJUSTED BASIS.—Notwithstanding any  
17          other provision of this subtitle, no deduction or cred-  
18          it shall be allowed for, or by reason of, any amount  
19          received by the taxpayer which constitutes a con-  
20          tribution to capital to which this subsection applies.  
21          The adjusted basis of any property acquired with the  
22          contributions to which this subsection applies shall  
23          be reduced by the amount of the contributions to  
24          which this subsection applies.

1           “(6) REGULATIONS.—The Secretary shall pre-  
2       scribe such regulations are appropriate to prevent  
3       the abuse of the purposes of the subsection, includ-  
4       ing regulations which allocate income and deductions  
5       (or adjust the amount excludable under this sub-  
6       section) in cases in which—

7           “(A) payments in excess of fair market  
8       value are paid to the contributor by the tax-  
9       payer, or

10          “(B) the contributor and the taxpayer are  
11       related parties.”

12       (b) CONFORMING AMENDMENT.—Subsection (e) of  
13       section 118 (as redesignated by subsection (a)) is amended  
14       by adding at the end the following flush sentence:

15       “Rules similar to the rules of the preceding sentence shall  
16       apply to any amount treated as a contribution to the cap-  
17       ital of the taxpayer under subsection (d).”

18       (c) EFFECTIVE DATE.—The amendments made by  
19       this section shall apply to amounts received after Decem-  
20       ber 31, 1999.

1           **TITLE XII—PROVISIONS**  
2           **RELATING TO PENSIONS**  
3       **Subtitle A—Expanding Coverage**

4       **SEC. 1201. INCREASE IN BENEFIT AND CONTRIBUTION LIM-**  
5                       **ITS.**

6           (a) DEFINED BENEFIT PLANS.—

7               (1) DOLLAR LIMIT.—

8                       (A) Subparagraph (A) of section 415(b)(1)  
9                       (relating to limitation for defined benefit plans)  
10                      is amended by striking “\$90,000” and inserting  
11                      “\$160,000”.

12               (B) Subparagraphs (C) and (D) of section  
13                      415(b)(2) are each amended by striking “\$90,000”  
14                      each place it appears in the headings and the text  
15                      and inserting “\$160,000”.

16               (C) Paragraph (7) of section 415(b) (relating to  
17                      benefits under certain collectively bargained plans) is  
18                      amended by striking “the greater of \$68,212 or one-  
19                      half the amount otherwise applicable for such year  
20                      under paragraph (1)(A) for ‘\$90,000’” and insert-  
21                      ing “one-half the amount otherwise applicable for  
22                      such year under paragraph (1)(A) for ‘\$160,000’”.

23               (2) LIMIT REDUCED WHEN BENEFIT BEGINS  
24                      BEFORE AGE 62.—Subparagraph (C) of section  
25                      415(b)(2) is amended by striking “the social security

1 retirement age” each place it appears in the heading  
2 and text and inserting “age 62”.

3 (3) LIMIT INCREASED WHEN BENEFIT BEGINS  
4 AFTER AGE 65.—Subparagraph (D) of section  
5 415(b)(2) is amended by striking “the social security  
6 retirement age” each place it appears in the heading  
7 and text and inserting “age 65”.

8 (4) COST-OF-LIVING ADJUSTMENTS.—Sub-  
9 section (d) of section 415 (related to cost-of-living  
10 adjustments) is amended—

11 (A) in paragraph (1)(A) by striking  
12 “\$90,000” and inserting “\$160,000”, and

13 (B) in paragraph (3)(A)—

14 (i) by striking “\$90,000” in the head-  
15 ing and inserting “\$160,000”, and

16 (ii) by striking “October 1, 1986” and  
17 inserting “July 1, 2000”.

18 (5) CONFORMING AMENDMENT.—Section  
19 415(b)(2) is amended by striking subparagraph (F).

20 (b) DEFINED CONTRIBUTION PLANS.—

21 (1) DOLLAR LIMIT.—Subparagraph (A) of sec-  
22 tion 415(c)(1) (relating to limitation for defined con-  
23 tribution plans) is amended by striking “\$30,000”  
24 and inserting “\$40,000”.

1           (2)    COST-OF-LIVING    ADJUSTMENTS.—Sub-  
2    section (d) of section 415 (related to cost-of-living  
3    adjustments) is amended—

4                   (A)   in paragraph (1)(C) by striking  
5           “\$30,000” and inserting “\$40,000”, and

6                   (B) in paragraph (3)(D)—

7                           (i) by striking “\$30,000” in the head-  
8                   ing and inserting “\$40,000”, and

9                           (ii) by striking “October 1, 1993” and  
10           inserting “July 1, 2000”.

11   (c) QUALIFIED TRUSTS.—

12           (1)        COMPENSATION        LIMIT.—Sections  
13    401(a)(17), 404(l), 408(k), and 505(b)(7) are each  
14    amended by striking “\$150,000” each place it ap-  
15    pears and inserting “\$200,000”.

16           (2) BASE PERIOD AND ROUNDING OF COST-OF-  
17    LIVING ADJUSTMENT.—Subparagraph (B) of section  
18    401(a)(17) is amended—

19                   (A) by striking “October 1, 1993” and in-  
20           serting “July 1, 2000”, and

21                   (B) by striking “\$10,000” both places it  
22           appears and inserting “\$5,000”.

23   (d) ELECTIVE DEFERRALS.—

1 (1) IN GENERAL.—Paragraph (1) of section  
 2 402(g) (relating to limitation on exclusion for elec-  
 3 tive deferrals) is amended to read as follows:

4 “(1) IN GENERAL.—

5 “(A) LIMITATION.—Notwithstanding sub-  
 6 sections (e)(3) and (h)(1)(B), the elective defer-  
 7 rals of any individual for any taxable year shall  
 8 be included in such individual’s gross income to  
 9 the extent the amount of such deferrals for the  
 10 taxable year exceeds the applicable dollar  
 11 amount.

12 “(B) APPLICABLE DOLLAR AMOUNT.—For  
 13 purposes of subparagraph (A), the applicable  
 14 dollar amount shall be the amount determined  
 15 in accordance with the following table:

<b>“Taxable year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.”.

16 (2) COST-OF-LIVING ADJUSTMENT.—Paragraph  
 17 (5) of section 402(g) is amended to read as follows:

18 “(5) COST-OF-LIVING ADJUSTMENT.—In the  
 19 case of taxable years beginning after December 31,  
 20 2005, the Secretary shall adjust the \$15,000  
 21 amount under paragraph (1)(B) at the same time  
 22 and in the same manner as under section 415(d);

1       except that the base period shall be the calendar  
2       quarter beginning July 1, 2004, and any increase  
3       under this paragraph which is not a multiple of  
4       \$500 shall be rounded to the next lowest multiple of  
5       \$500.”.

6               (3) CONFORMING AMENDMENTS.—

7               (A) Section 402(g) (relating to limitation  
8       on exclusion for elective deferrals), as amended  
9       by paragraphs (1) and (2), is further amended  
10      by striking paragraph (4) and redesignating  
11      paragraphs (5), (6), (7), (8), and (9) as para-  
12      graphs (4), (5), (6), (7), and (8), respectively.

13              (B) Paragraph (2) of section 457(c) is  
14      amended by striking “402(g)(8)(A)(iii)” and in-  
15      serting “402(g)(7)(A)(iii)”.

16              (C) Clause (iii) of section 501(c)(18)(D) is  
17      amended by striking “(other than paragraph  
18      (4) thereof)”.

19              (e) DEFERRED COMPENSATION PLANS OF STATE  
20      AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-  
21      ZATIONS.—

22              (1) IN GENERAL.—Section 457 (relating to de-  
23      ferred compensation plans of State and local govern-  
24      ments and tax-exempt organizations) is amended—

1 (A) in subsections (b)(2)(A) and (c)(1) by  
 2 striking “\$7,500” each place it appears and in-  
 3 serting “the applicable dollar amount”, and

4 (B) in subsection (b)(3)(A) by striking  
 5 “\$15,000” and inserting “twice the dollar  
 6 amount in effect under subsection (b)(2)(A)”.

7 (2) APPLICABLE DOLLAR AMOUNT; COST-OF-  
 8 LIVING ADJUSTMENT.—Paragraph (15) of section  
 9 457(e) is amended to read as follows:

10 “(15) APPLICABLE DOLLAR AMOUNT.—

11 “(A) IN GENERAL.—The applicable dollar  
 12 amount shall be the amount determined in ac-  
 13 cordance with the following table:

<b>“Taxable year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$11,000
2002 .....	\$12,000
2003 .....	\$13,000
2004 .....	\$14,000
2005 or thereafter .....	\$15,000.

14 “(B) COST-OF-LIVING ADJUSTMENTS.—In  
 15 the case of taxable years beginning after De-  
 16 cember 31, 2005, the Secretary shall adjust the  
 17 \$15,000 amount specified in the table in sub-  
 18 paragraph (A) at the same time and in the  
 19 same manner as under section 415(d), except  
 20 that the base period shall be the calendar quar-  
 21 ter beginning July 1, 2004, and any increase  
 22 under this paragraph which is not a multiple of



1           \$500 shall be rounded to the next lowest mul-  
 2           tiple of \$500.”.

3           (f) SIMPLE RETIREMENT ACCOUNTS.—

4           (1) LIMITATION.—Clause (ii) of section  
 5           408(p)(2)(A) (relating to general rule for qualified  
 6           salary reduction arrangement) is amended by strik-  
 7           ing “\$6,000” and inserting “the applicable dollar  
 8           amount”.

9           (2) APPLICABLE DOLLAR AMOUNT.—Subpara-  
 10          graph (E) of 408(p)(2) is amended to read as fol-  
 11          lows:

12                       “(E) APPLICABLE DOLLAR AMOUNT; COST-  
 13                       OF-LIVING ADJUSTMENT.—

14                       “(i) IN GENERAL.—For purposes of  
 15                       subparagraph (A)(ii), the applicable dollar  
 16                       amount shall be the amount determined in  
 17                       accordance with the following table:

<b>“Year:</b>	<b>Applicable dollar amount:</b>
2001 .....	\$7,000
2002 .....	\$8,000
2003 .....	\$9,000
2004 or thereafter .....	\$10,000.

18                       “(ii) COST-OF-LIVING ADJUSTMENT.—

19                       In the case of a year beginning after De-  
 20                       cember 31, 2004, the Secretary shall ad-  
 21                       just the \$10,000 amount under clause (i)  
 22                       at the same time and in the same manner  
 23                       as under section 415(d), except that the

1 base period taken into account shall be the  
2 calendar quarter beginning July 1, 2003,  
3 and any increase under this subparagraph  
4 which is not a multiple of \$500 shall be  
5 rounded to the next lower multiple of  
6 \$500.”.

7 (3) CONFORMING AMENDMENTS.—

8 (A) Clause (I) of section 401(k)(11)(B)(i)  
9 is amended by striking “\$6,000” and inserting  
10 “the amount in effect under section  
11 408(p)(2)(A)(ii)”.

12 (B) Section 401(k)(11) is amended by  
13 striking subparagraph (E).

14 (g) ROUNDING RULE RELATING TO DEFINED BEN-  
15 EFIT PLANS AND DEFINED CONTRIBUTION PLANS.—

16 Paragraph (4) of section 415(d) is amended to read as  
17 follows:

18 “(4) ROUNDING.—

19 “(A) \$160,000 AMOUNT.—Any increase  
20 under subparagraph (A) of paragraph (1) which  
21 is not a multiple of \$5,000 shall be rounded to  
22 the next lowest multiple of \$5,000.

23 “(B) \$40,000 AMOUNT.—Any increase  
24 under subparagraph (C) of paragraph (1) which

1 is not a multiple of \$1,000 shall be rounded to  
2 the next lowest multiple of \$1,000.”.

3 (h) EFFECTIVE DATE.—

4 (1) IN GENERAL.—The amendments made by  
5 this section shall apply to years beginning after De-  
6 cember 31, 2000.

7 (2) COLLECTIVE BARGAINING AGREEMENTS.—

8 In the case of a plan maintained pursuant to 1 or  
9 more collective bargaining agreements between em-  
10 ployee representatives and 1 or more employers rati-  
11 fied by the date of enactment of this Act, the  
12 amendments made by this section shall not apply to  
13 contributions or benefits pursuant to any such  
14 agreement for years beginning before the earlier  
15 of—

16 (A) the later of—

17 (i) the date on which the last of such  
18 collective bargaining agreements termi-  
19 nates (determined without regard to any  
20 extension thereof on or after such date of  
21 enactment), or

22 (ii) January 1, 2001, or

23 (B) January 1, 2005.

1 **SEC. 1202. PLAN LOANS FOR SUBCHAPTER S OWNERS,**  
2 **PARTNERS, AND SOLE PROPRIETORS.**

3 (a) IN GENERAL.—Subparagraph (B) of section  
4 4975(f)(6) (relating to exemptions not to apply to certain  
5 transactions) is amended by adding at the end the fol-  
6 lowing new clause:

7 “(iii) LOAN EXCEPTION.—For pur-  
8 poses of subparagraph (A)(i), the term  
9 ‘owner-employee’ shall only include a per-  
10 son described in subclause (II) or (III) of  
11 clause (i).”

12 (b) EFFECTIVE DATE.—The amendment made by  
13 this section shall apply to loans made after December 31,  
14 2000.

15 **SEC. 1203. MODIFICATION OF TOP-HEAVY RULES.**

16 (a) SIMPLIFICATION OF DEFINITION OF KEY EM-  
17 PLOYEE.—

18 (1) IN GENERAL.—Section 416(i)(1)(A) (defin-  
19 ing key employee) is amended—

20 (A) by striking “or any of the 4 preceding  
21 plan years” in the matter preceding clause (i),

22 (B) by striking clause (i) and inserting the  
23 following:

24 “(i) an officer of the employer having  
25 an annual compensation greater than  
26 \$150,000,”

1 (C) by striking clause (ii) and redesignig-  
2 nating clauses (iii) and (iv) as clauses (ii) and  
3 (iii), respectively, and

4 (D) by striking the second sentence in the  
5 matter following clause (iii), as redesignated by  
6 subparagraph (C).

7 (2) CONFORMING AMENDMENT.—Section  
8 416(i)(1)(B)(iii) is amended by striking “and sub-  
9 paragraph (A)(ii)”.

10 (b) MATCHING CONTRIBUTIONS TAKEN INTO AC-  
11 COUNT FOR MINIMUM CONTRIBUTION REQUIREMENTS.—  
12 Section 416(c)(2)(A) (relating to defined contribution  
13 plans) is amended by adding at the end the following:  
14 “Employer matching contributions (as defined in section  
15 401(m)(4)(A)) shall be taken into account for purposes  
16 of this subparagraph.”.

17 (c) DISTRIBUTIONS DURING LAST YEAR BEFORE  
18 DETERMINATION DATE TAKEN INTO ACCOUNT.—

19 (1) IN GENERAL.—Paragraph (3) of section  
20 416(g) is amended to read as follows:

21 “(3) DISTRIBUTIONS DURING LAST YEAR BE-  
22 FORE DETERMINATION DATE TAKEN INTO AC-  
23 COUNT.—

24 “(A) IN GENERAL.—For purposes of  
25 determining—

1                   “(i) the present value of the cumu-  
2                   lative accrued benefit for any employee, or

3                   “(ii) the amount of the account of any  
4                   employee,

5                   such present value or amount shall be increased  
6                   by the aggregate distributions made with re-  
7                   spect to such employee under the plan during  
8                   the 1-year period ending on the determination  
9                   date. The preceding sentence shall also apply to  
10                  distributions under a terminated plan which if  
11                  it had not been terminated would have been re-  
12                  quired to be included in an aggregation group.

13                  “(B) 5-YEAR PERIOD IN CASE OF IN-SERV-  
14                  ICE DISTRIBUTION.—In the case of any dis-  
15                  tribution made for a reason other than separa-  
16                  tion from service, death, or disability, subpara-  
17                  graph (A) shall be applied by substituting ‘5-  
18                  year period’ for ‘1-year period’.”.

19                  (2) BENEFITS NOT TAKEN INTO ACCOUNT.—  
20                  Subparagraph (E) of section 416(g)(4) is  
21                  amended—

22                         (A) by striking “LAST 5 YEARS” in the  
23                         heading and inserting “LAST YEAR BEFORE DE-  
24                         TERMINATION DATE”, and

1 (B) by striking “5-year period” and insert-  
2 ing “1-year period”.

3 (d) DEFINITION OF TOP-HEAVY PLANS.—Paragraph  
4 (4) of section 416(g) (relating to other special rules for  
5 top-heavy plans) is amended by adding at the end the fol-  
6 lowing new subparagraph:

7 “(H) CASH OR DEFERRED ARRANGEMENTS  
8 USING ALTERNATIVE METHODS OF MEETING  
9 NONDISCRIMINATION REQUIREMENTS.—The  
10 term ‘top-heavy plan’ shall not include a plan  
11 which consists solely of—

12 “(i) a cash or deferred arrangement  
13 which meets the requirements of section  
14 401(k)(12), and

15 “(ii) matching contributions with re-  
16 spect to which the requirements of section  
17 401(m)(11) are met.

18 If, but for this subparagraph, a plan would be  
19 treated as a top-heavy plan because it is a  
20 member of an aggregation group which is a top-  
21 heavy group, contributions under the plan may  
22 be taken into account in determining whether  
23 any other plan in the group meets the require-  
24 ments of subsection (c)(2).”

1 (e) FROZEN PLAN EXEMPT FROM MINIMUM BEN-  
2 EFIT REQUIREMENT.—Subparagraph (C) of section  
3 416(c)(1) (relating to defined benefit plans) is amended—

4 (A) in clause (i), by striking “clause (ii)”  
5 and inserting “clause (ii) or (iii)”, and

6 (B) by adding at the end the following:

7 “(iii) EXCEPTION FOR FROZEN  
8 PLAN.—For purposes of determining an  
9 employee’s years of service with the em-  
10 ployer, any service with the employer shall  
11 be disregarded to the extent that such  
12 service occurs during a plan year when the  
13 plan benefits (within the meaning of sec-  
14 tion 410(b)) no employee or former em-  
15 ployee.”.

16 (f) EFFECTIVE DATE.—The amendments made by  
17 this section shall apply to years beginning after December  
18 31, 2000.

19 **SEC. 1204. ELECTIVE DEFERRALS NOT TAKEN INTO AC-**  
20 **COUNT FOR PURPOSES OF DEDUCTION LIM-**  
21 **ITS.**

22 (a) IN GENERAL.—Section 404 (relating to deduction  
23 for contributions of an employer to an employees’ trust  
24 or annuity plan and compensation under a deferred pay-



1 ment plan) is amended by adding at the end the following  
2 new subsection:

3 “(n) ELECTIVE DEFERRALS NOT TAKEN INTO AC-  
4 COUNT FOR PURPOSES OF DEDUCTION LIMITS.—Elective  
5 deferrals (as defined in section 402(g)(3)) shall not be  
6 subject to any limitation contained in paragraph (3), (7),  
7 or (9) of subsection (a), and such elective deferrals shall  
8 not be taken into account in applying any such limitation  
9 to any other contributions.”.

10 (b) EFFECTIVE DATE.—The amendment made by  
11 this section shall apply to years beginning after December  
12 31, 2000.

13 **SEC. 1205. REDUCED PBGC PREMIUM FOR NEW PLANS OF**  
14 **SMALL EMPLOYERS.**

15 (a) IN GENERAL.—Subparagraph (A) of section  
16 4006(a)(3) of the Employee Retirement Income Security  
17 Act of 1974 (29 U.S.C. 1306(a)(3)(A)) is amended—

18 (1) in clause (i), by inserting “other than a new  
19 single-employer plan (as defined in subparagraph  
20 (F)) maintained by a small employer (as so de-  
21 fined),” after “single-employer plan,”

22 (2) in clause (iii), by striking the period at the  
23 end and inserting “, and”, and

24 (3) by adding at the end the following new  
25 clause:

1           “(iv) in the case of a new single-employer plan  
2           (as defined in subparagraph (F)) maintained by a  
3           small employer (as so defined) for the plan year, \$5  
4           for each individual who is a participant in such plan  
5           during the plan year.”.

6           (b)   DEFINITION   OF   NEW   SINGLE-EMPLOYER  
7   PLAN.—Section 4006(a)(3) of the Employee Retirement  
8   Income Security Act of 1974 (29 U.S.C. 1306(a)(3)) is  
9   amended by adding at the end the following new subpara-  
10 graph:

11          “(F)(i) For purposes of this paragraph, a single-em-  
12 ployer plan maintained by a contributing sponsor shall be  
13 treated as a new single-employer plan for each of its first  
14 5 plan years if, during the 36-month period ending on the  
15 date of the adoption of such plan, the sponsor or any  
16 member of such sponsor’s controlled group (or any prede-  
17 cessor of either) had not established or maintained a plan  
18 to which this title applies with respect to which benefits  
19 were accrued for substantially the same employees as are  
20 in the new single-employer plan.

21          “(ii)(I) For purposes of this paragraph, the term  
22 ‘small employer’ means an employer which on the first day  
23 of any plan year has, in aggregation with all members of  
24 the controlled group of such employer, 100 or fewer em-  
25 ployees.

1       “(II) In the case of a plan maintained by 2 or more  
2 contributing sponsors that are not part of the same con-  
3 trolled group, the employees of all contributing sponsors  
4 and controlled groups of such sponsors shall be aggregated  
5 for purposes of determining whether any contributing  
6 sponsor is a small employer.”.

7       (c) EFFECTIVE DATE.—The amendments made by  
8 this section shall apply to plans established after Decem-  
9 ber 31, 2000.

10 **SEC. 1206. REDUCTION OF ADDITIONAL PBGC PREMIUM**  
11 **FOR NEW AND SMALL PLANS.**

12       (a) NEW PLANS.—Subparagraph (E) of section  
13 4006(a)(3) of the Employee Retirement Income Security  
14 Act of 1974 (29 U.S.C. 1306(a)(3)(E)) is amended by  
15 adding at the end the following new clause:

16       “(v) In the case of a new defined benefit plan, the  
17 amount determined under clause (ii) for any plan year  
18 shall be an amount equal to the product of the amount  
19 determined under clause (ii) and the applicable percent-  
20 age. For purposes of this clause, the term ‘applicable per-  
21 centage’ means—

22               “(I) 0 percent, for the first plan year.

23               “(II) 20 percent, for the second plan year.

24               “(III) 40 percent, for the third plan year.

25               “(IV) 60 percent, for the fourth plan year.

1           “(V) 80 percent, for the fifth plan year.

2   For purposes of this clause, a defined benefit plan (as de-  
3   fined in section 3(35)) maintained by a contributing spon-  
4   sor shall be treated as a new defined benefit plan for its  
5   first 5 plan years if, during the 36-month period ending  
6   on the date of the adoption of the plan, the sponsor and  
7   each member of any controlled group including the spon-  
8   sor (or any predecessor of either) did not establish or  
9   maintain a plan to which this title applies with respect  
10  to which benefits were accrued for substantially the same  
11  employees as are in the new plan.”.

12       (b) SMALL PLANS.—Paragraph (3) of section  
13  4006(a) of the Employee Retirement Income Security Act  
14  of 1974 (29 U.S.C. 1306(a)) is amended—

15           (1) in subparagraph (E)(i) by striking “The”  
16       and inserting “Except as provided in subparagraph  
17       (G), the”, and

18           (2) by inserting after subparagraph (F) the fol-  
19       lowing new subparagraph:

20       “(G)(i) In the case of an employer who has 25 or  
21       fewer employees on the first day of the plan year, the addi-  
22       tional premium determined under subparagraph (E) for  
23       each participant shall not exceed \$5 multiplied by the  
24       number of participants in the plan as of the close of the  
25       preceding plan year.

1       “(ii) For purposes of clause (i), whether an employer  
2 has 25 or fewer employees on the first day of the plan  
3 year is determined taking into consideration all of the em-  
4 ployees of all members of the contributing sponsor’s con-  
5 trolled group. In the case of a plan maintained by 2 or  
6 more contributing sponsors, the employees of all contrib-  
7 uting sponsors and their controlled groups shall be aggre-  
8 gated for purposes of determining whether 25-or-fewer-  
9 employees limitation has been satisfied.”.

10       (c) EFFECTIVE DATES.—

11           (1) SUBSECTION (a).—The amendments made  
12 by subsection (a) shall apply to plans established  
13 after December 31, 2000.

14           (2) SUBSECTION (b).—The amendments made  
15 by subsection (b) shall apply to plan years beginning  
16 after December 31, 2000.

17 **SEC. 1207. REPEAL OF COORDINATION REQUIREMENTS**  
18 **FOR DEFERRED COMPENSATION PLANS OF**  
19 **STATE AND LOCAL GOVERNMENTS AND TAX-**  
20 **EXEMPT ORGANIZATIONS.**

21       (a) IN GENERAL.—Subsection (c) of section 457 (re-  
22 lating to deferred compensation plans of State and local  
23 governments and tax-exempt organizations), as amended  
24 by section 1201(e), is amended to read as follows:

1       “(c) LIMITATION.—The maximum amount of the  
2 compensation of any one individual which may be deferred  
3 under subsection (a) during any taxable year shall not ex-  
4 ceed the amount in effect under subsection (b)(2)(A) (as  
5 modified by any adjustment provided under subsection  
6 (b)(3)).”.

7       (b) EFFECTIVE DATE.—The amendment made by  
8 subsection (a) shall apply to years beginning after Decem-  
9 ber 31, 2000.

10 **SEC. 1208. ELIMINATION OF USER FEE FOR REQUESTS TO**  
11 **IRS REGARDING PENSION PLANS.**

12       (a) ELIMINATION OF CERTAIN USER FEES.—The  
13 Secretary of the Treasury or the Secretary’s delegate shall  
14 not require payment of user fees under the program estab-  
15 lished under section 7527 of the Internal Revenue Code  
16 of 1986 for requests to the Internal Revenue Service for  
17 determination letters with respect to the qualified status  
18 of a pension benefit plan maintained solely by one or more  
19 eligible employers or any trust which is part of the plan.  
20 The preceding sentence shall not apply to any request  
21 made by the sponsor of any prototype or similar plan  
22 which the sponsor intends to market to participating em-  
23 ployers.

24       (b) PENSION BENEFIT PLAN.—For purposes of this  
25 section, the term “pension benefit plan” means a pension,

1 profit-sharing, stock bonus, annuity, or employee stock  
2 ownership plan.

3 (c) ELIGIBLE EMPLOYER.—For purposes of this sec-  
4 tion, the term “eligible employer” has the same meaning  
5 given such term in section 408(p)(2)(C)(i)(I) of the Inter-  
6 nal Revenue Code of 1986. The determination of whether  
7 an employer is an eligible employer under this section shall  
8 be made as of the date of the request described in sub-  
9 section (a).

10 (d) EFFECTIVE DATE.—The provisions of this sec-  
11 tion shall apply with respect to requests made after De-  
12 cember 31, 2000.

13 **SEC. 1209. DEDUCTION LIMITS.**

14 (a) IN GENERAL.—Section 404(a) (relating to gen-  
15 eral rule) is amended by adding at the end the following:

16 “(12) DEFINITION OF COMPENSATION.—For  
17 purposes of paragraphs (3), (7), (8), and (9), the  
18 term ‘compensation’ shall include amounts treated  
19 as participant’s compensation under subparagraph  
20 (C) or (D) of section 415(c)(3).”.

21 (b) CONFORMING AMENDMENT.—Subparagraph (B)  
22 of section 404(a)(3) is amended by striking the last sen-  
23 tence thereof.

1       (c) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to years beginning after December  
3 31, 2000.

4       **SEC. 1210. OPTION TO TREAT ELECTIVE DEFERRALS AS**  
5                               **AFTER-TAX CONTRIBUTIONS.**

6       (a) IN GENERAL.—Subpart A of part I of subchapter  
7 D of chapter 1 (relating to deferred compensation, etc.)  
8 is amended by inserting after section 402 the following  
9 new section:

10       **“SEC. 402A. OPTIONAL TREATMENT OF ELECTIVE DEFER-**  
11                               **RALS AS PLUS CONTRIBUTIONS.**

12       “(a) GENERAL RULE.—If an applicable retirement  
13 plan includes a qualified plus contribution program—

14               “(1) any designated plus contribution made by  
15 an employee pursuant to the program shall be treat-  
16 ed as an elective deferral for purposes of this chap-  
17 ter, except that such contribution shall not be ex-  
18 cludable from gross income, and

19               “(2) such plan (and any arrangement which is  
20 part of such plan) shall not be treated as failing to  
21 meet any requirement of this chapter solely by rea-  
22 son of including such program.

23       “(b) QUALIFIED PLUS CONTRIBUTION PROGRAM.—  
24 For purposes of this section—



1           “(1) IN GENERAL.—The term ‘qualified plus  
2           contribution program’ means a program under which  
3           an employee may elect to make designated plus con-  
4           tributions in lieu of all or a portion of elective defer-  
5           rals the employee is otherwise eligible to make under  
6           the applicable retirement plan.

7           “(2) SEPARATE ACCOUNTING REQUIRED.—A  
8           program shall not be treated as a qualified plus con-  
9           tribution program unless the applicable retirement  
10          plan—

11                 “(A) establishes separate accounts (‘des-  
12                 ignated plus accounts’) for the designated plus  
13                 contributions of each employee and any earn-  
14                 ings properly allocable to the contributions, and

15                 “(B) maintains separate recordkeeping  
16                 with respect to each account.

17          “(c) DEFINITIONS AND RULES RELATING TO DES-  
18          IGNATED PLUS CONTRIBUTIONS.—For purposes of this  
19          section—

20                 “(1) DESIGNATED PLUS CONTRIBUTION.—The  
21                 term ‘designated plus contribution’ means any elec-  
22                 tive deferral which—

23                         “(A) is excludable from gross income of an  
24                         employee without regard to this section, and

1           “(B) the employee designates (at such time  
2           and in such manner as the Secretary may pre-  
3           scribe) as not being so excludable.

4           “(2) DESIGNATION LIMITS.—The amount of  
5           elective deferrals which an employee may designate  
6           under paragraph (1) shall not exceed the excess (if  
7           any) of—

8           “(A) the maximum amount of elective de-  
9           ferrals excludable from gross income of the em-  
10          ployee for the taxable year (without regard to  
11          this section), over

12          “(B) the aggregate amount of elective de-  
13          ferrals of the employee for the taxable year  
14          which the employee does not designate under  
15          paragraph (1).

16          “(3) ROLLOVER CONTRIBUTIONS.—

17          “(A) IN GENERAL.—A rollover contribu-  
18          tion of any payment or distribution from a des-  
19          ignated plus account which is otherwise allow-  
20          able under this chapter may be made only if the  
21          contribution is to—

22                 “(i) another designated plus account  
23                 of the individual from whose account the  
24                 payment or distribution was made, or

25                 “(ii) a Roth IRA of such individual.

“(B) COORDINATION WITH LIMIT.—Any rollover contribution to a designated plus account under subparagraph (A) shall not be taken into account for purposes of paragraph (1).

6       “(d) DISTRIBUTION RULES.—For purposes of this  
7 title—

8                   “(1) EXCLUSION.—Any qualified distribution  
9                   from a designated plus account shall not be includ-  
10                  ible in gross income.

11 “(2) QUALIFIED DISTRIBUTION.—For purposes  
12 of this subsection—

13                   “(A) IN GENERAL.—The term ‘qualified  
14                   distribution’ has the meaning given such term  
15                   by section 408A(d)(2)(A) (without regard to  
16                   clause (iv) thereof).

“(B) DISTRIBUTIONS WITHIN NONEXCLUSION PERIOD.—A payment or distribution from a designated plus account shall not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable-year period beginning with the earlier of—

“(i) the 1st taxable year for which the individual made a designated plus contribution to any designated plus account

1 established for such individual under the  
2 same applicable retirement plan, or

3 “(ii) if a rollover contribution was  
4 made to such designated plus account from  
5 a designated plus account previously estab-  
6 lished for such individual under another  
7 applicable retirement plan, the 1st taxable  
8 year for which the individual made a des-  
9 ignated plus contribution to such pre-  
10 viously established account.

11 “(C) DISTRIBUTIONS OF EXCESS DEFER-  
12 RALS AND EARNINGS.—The term ‘qualified dis-  
13 tribution’ shall not include any distribution of  
14 any excess deferral under section 402(g)(2) and  
15 any income on the excess deferral.

16 “(3) AGGREGATION RULES.—Section 72 shall  
17 be applied separately with respect to distributions  
18 and payments from a designated plus account and  
19 other distributions and payments from the plan.

20 “(e) OTHER DEFINITIONS.—For purposes of this  
21 section—

22 “(1) APPLICABLE RETIREMENT PLAN.—The  
23 term ‘applicable retirement plan’ means—

1           “(A) an employees’ trust described in sec-  
2           tion 401(a) which is exempt from tax under  
3           section 501(a), and

4           “(B) a plan under which amounts are con-  
5           tributed by an individual’s employer for an an-  
6           nuity contract described in section 403(b).

7           “(2) ELECTIVE DEFERRAL.—The term ‘elective  
8           deferral’ means any elective deferral described in  
9           subparagraph (A) or (C) of section 402(g)(3).”

10          (b) EXCESS DEFERRALS.—Section 402(g) (relating  
11       to limitation on exclusion for elective deferrals) is  
12       amended—

13           (1) by adding at the end of paragraph (1) the  
14       following new sentence: “The preceding sentence  
15       shall not apply to so much of such excess as does  
16       not exceed the designated plus contributions of the  
17       individual for the taxable year.”, and

18           (2) by inserting “(or would be included but for  
19       the last sentence thereof)” after “paragraph (1)” in  
20       paragraph (2)(A).

21          (c) ROLLOVERS.—Subparagraph (B) of section  
22       402(c)(8) is amended by adding at the end the following:

23           “If any portion of an eligible rollover distribu-  
24       tion is attributable to payments or distributions  
25       from a designated plus account (as defined in

1           section 402A), an eligible retirement plan with  
2           respect to such portion shall include only an-  
3           other designated plus account and a Roth  
4           IRA.”

5       (d) REPORTING REQUIREMENTS.—

6           (1) W-2 INFORMATION.—Section 6051(a)(8) is  
7           amended by inserting “, including the amount of  
8           designated plus contributions (as defined in section  
9           402A)” before the comma at the end.

10          (2) INFORMATION.—Section 6047 is amended  
11          by redesignating subsection (f) as subsection (g) and  
12          by inserting after subsection (e) the following new  
13          subsection:

14          “(f) DESIGNATED PLUS CONTRIBUTIONS.—The Sec-  
15          retary shall require the plan administrator of each applica-  
16          ble retirement plan (as defined in section 402A) to make  
17          such returns and reports regarding designated plus con-  
18          tributions (as so defined) to the Secretary, participants  
19          and beneficiaries of the plan, and such other persons as  
20          the Secretary may prescribe.”

21       (e) CONFORMING AMENDMENTS.—

22           (1) Section 408A(e) is amended by adding after  
23           the first sentence the following new sentence: “Such  
24           term includes a rollover contribution described in  
25           section 402A(c)(3)(A).”

1           (2) The table of sections for subpart A of part  
2           I of subchapter D of chapter 1 is amended by insert-  
3           ing after the item relating to section 402 the fol-  
4           lowing new item:

“Sec. 402A. Optional treatment of elective deferrals as plus contributions.”

5           (f) EFFECTIVE DATE.—The amendments made by  
6 this section shall apply to taxable years beginning after  
7 December 31, 2000.

8   **SEC. 1211. INCREASE IN MINIMUM DEFINED BENEFIT LIMIT**  
9                           **UNDER SECTION 415.**

10          (a) IN GENERAL.—Paragraph (4) of section 415(b)  
11 (relating to total annual benefits not in excess of \$10,000)  
12 is amended to read as follows:

13               “(4) TOTAL ANNUAL BENEFITS NOT IN EXCESS  
14           OF \$40,000.—

15               “(A) IN GENERAL.—Notwithstanding the  
16           preceding provisions of this subsection, the ben-  
17           efits payable with respect to a participant under  
18           any defined benefit plan shall be deemed not to  
19           exceed the limitation of this subsection if the  
20           retirement benefits payable with respect to such  
21           participant under such plan and under all other  
22           defined benefit plans of the employer do not ex-  
23           ceed applicable limit which applies to the plan  
24           year, or the applicable limit which applies to  
25           prior plan years.

1                   “(B) APPLICABLE LIMIT.—For purposes of  
2                   subparagraph (A), the applicable limit is—

3                   “(i) \$10,000 for plan years beginning  
4                   before 2001,

5                   “(ii) \$20,000 for plan years beginning  
6                   during 2001,

7                   “(iii) \$30,000 for plan years begin-  
8                   ning during 2002, and

9                   “(iv) \$40,000 for plan years begin-  
10                  ning after 2002.”

11           (b) EFFECTIVE DATE.—The amendment made by  
12 this section shall apply to years beginning after December  
13 31, 2000.

14   **Subtitle B—Enhancing Fairness for**  
15                   **Women**

16   **SEC. 1221. ADDITIONAL SALARY REDUCTION CATCH-UP**  
17                   **CONTRIBUTIONS.**

18           (a) LIMITATION ON EXCLUSION FOR ELECTIVE DE-  
19 FERRALS.—

20                   (1) IN GENERAL.—Subsection (g) of section  
21           402 (as amended by section 1201(d)) is further  
22           amended by adding at the end the following:

23                   “(9) CATCH-UP CONTRIBUTIONS FOR THOSE  
24           APPROACHING RETIREMENT.—



“(A) IN GENERAL.—In the case of an individual who is at least age 50 as of the end of any taxable year, the limitation of paragraph (1) for such year, after the application of paragraph (7), shall be increased by the applicable catch-up amount.

7 “(B) APPLICABLE CATCH-UP AMOUNT.—  
8 For purposes of subparagraph (A), the applica-  
9 ble catch-up amount shall be the amount deter-  
10 mined in accordance with the following table:

<b>“Taxable year:</b>	<b>Applicable catch-up amount:</b>
2001 .....	\$1,000
2002 .....	\$2,000
2003 .....	\$3,000
2004 .....	\$4,000
2005 or thereafter .....	\$5,000.”

(2) COST-OF-LIVING ADJUSTMENTS.—Paragraph (4) of section 402(g) (relating to cost-of-living adjustment), as amended by section 1201(d), is further amended by inserting “and the \$5,000 dollar amount in paragraph (9)” after “paragraph (1)(B)”.

(b) SIMPLE RETIREMENT ACCOUNTS.—Paragraph (2) of section 408(p) (relating to qualified salary reduction arrangement) is amended by inserting at the end of the following new subparagraph:

21 “(F) CATCH-UP CONTRIBUTIONS FOR  
22 THOSE APPROACHING RETIREMENT.—In the

1 case of an individual who is at least age 50 as  
2 of the end of any taxable year, the limitation of  
3 subparagraph (A)(ii) for such year shall be in-  
4 creased by the applicable catch-up amount. For  
5 purposes of the preceding sentence, the applica-  
6 ble catch-up amount is the amount in effect  
7 under section 402(g)(9) for such taxable year.”.

8 (c) DEFERRED COMPENSATION PLANS OF STATE  
9 AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-  
10 ZATIONS.—Subsection (e) of section 457 (relating to other  
11 definitions and special rules) is amended by adding after  
12 paragraph (16) the following new paragraph:

13 “(17) CATCH-UP AMOUNTS.—In the case of an  
14 individual who is at least age 50 as of the end of  
15 any taxable year, the limitation of subsection  
16 (b)(2)(A) for such year shall be increased by the ap-  
17 plicable catch-up amount (as in effect under section  
18 402(g)(9) for such taxable year), except that this  
19 paragraph shall not apply to any taxable year to  
20 which subsection (b)(3) applies.”.

21 (d) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to years beginning after December  
23 31, 2000.

1 **SEC. 1222. EQUITABLE TREATMENT FOR CONTRIBUTIONS**  
2 **OF EMPLOYEES TO DEFINED CONTRIBUTION**  
3 **PLANS.**

4 (a) EQUITABLE TREATMENT.—

5 (1) IN GENERAL.—Subparagraph (B) of section  
6 415(c)(1) (relating to limitation for defined con-  
7 tribution plans) is amended by striking “25 percent”  
8 and inserting “100 percent”.

9 (2) APPLICATION TO SECTION 403(b).—Section  
10 403(b) is amended—

11 (A) by striking “the exclusion allowance  
12 for such taxable year” in paragraph (1) and in-  
13 serting “the applicable limit under section  
14 415”,

15 (B) by striking paragraph (2), and

16 (C) by inserting “or any amount received  
17 by a former employee after the 5th taxable year  
18 following the taxable year in which such em-  
19 ployee was terminated” before the period at the  
20 end of the second sentence of paragraph (3).

21 (3) CONFORMING AMENDMENTS.—

22 (A) Subsection (f) of section 72 is amend-  
23 ed by striking “section 403(b)(2)(D)(iii))” and  
24 inserting “section 403(b)(2)(D)(iii), as in effect  
25 on December 31, 2000)”.

1 (B) Section 404(a)(10)(B) is amended by  
2 striking “, the exclusion allowance under sec-  
3 tion 403(b)(2),”.

4 (C) Section 415(a)(2) is amended by strik-  
5 ing “, and the amount of the contribution for  
6 such portion shall reduce the exclusion allow-  
7 ance as provided in section 403(b)(2)”.

8 (D) Section 415(c)(3) is amended by add-  
9 ing at the end the following new subparagraph:

10 “(E) ANNUITY CONTRACTS.—In the case  
11 of an annuity contract described in section  
12 403(b), the term ‘participant’s compensation’  
13 means the participant’s includible compensation  
14 determined under section 403(b)(3).”.

15 (E) Section 415(c) is amended by striking  
16 paragraph (4).

17 (F) Section 415(c)(7) is amended to read  
18 as follows:

19 “(7) CERTAIN CONTRIBUTIONS BY CHURCH  
20 PLANS NOT TREATED AS EXCEEDING LIMIT.—

21 “(A) IN GENERAL.—Notwithstanding any  
22 other provision of this subsection, at the elec-  
23 tion of a participant who is an employee of a  
24 church or a convention or association of church-  
25 es, including an organization described in sec-

1           tion 414(e)(3)(B)(ii), contributions and other  
2           additions for an annuity contract or retirement  
3           income account described in section 403(b) with  
4           respect to such participant, when expressed as  
5           an annual addition to such participant's ac-  
6           count, shall be treated as not exceeding the lim-  
7           itation of paragraph (1) if such annual addition  
8           is not in excess of \$10,000.

9           “(B) \$40,000 AGGREGATE LIMITATION.—  
10          The total amount of additions with respect to  
11          any participant which may be taken into ac-  
12          count for purposes of this subparagraph for all  
13          years may not exceed \$40,000.

14          “(C) ANNUAL ADDITION.—For purposes of  
15          this paragraph, the term ‘annual addition’ has  
16          the meaning given such term by paragraph  
17          (2).”.

18          (G) Subparagraph (B) of section 402(g)(7)  
19          (as amended by section 1201(d)) is amended by  
20          inserting before the period at the end the fol-  
21          lowing: “(as in effect on the date of the enact-  
22          ment of the Financial Freedom Act of 1999)”.

23          (3) EFFECTIVE DATE.—The amendments made  
24          by this subsection shall apply to years beginning  
25          after December 31, 2000.

1       (b) SPECIAL RULES FOR SECTIONS 403(b) AND  
2 408.—

3           (1) IN GENERAL.—Subsection (k) of section  
4 415 is amended by adding at the end the following  
5 new paragraph:

6           “(4) SPECIAL RULES FOR SECTIONS 403(b) AND  
7 408.—For purposes of this section, any annuity con-  
8 tract described in section 403(b) for the benefit of  
9 a participant shall be treated as a defined contribu-  
10 tion plan maintained by each employer with respect  
11 to which the participant has the control required  
12 under subsection (b) or (c) of section 414 (as modi-  
13 fied by subsection (h)). For purposes of this section,  
14 any contribution by an employer to a simplified em-  
15 ployee pension plan for an individual for a taxable  
16 year shall be treated as an employer contribution to  
17 a defined contribution plan for such individual for  
18 such year.”.

19           (2) EFFECTIVE DATE.—

20           (A) IN GENERAL.—The amendment made  
21 by paragraph (1) shall apply to limitation years  
22 beginning after December 31, 1999.

23           (B) EXCLUSION ALLOWANCE.—Effective  
24 for limitation years beginning in 2000, in the  
25 case of any annuity contract described in sec-

1           tion 403(b) of the Internal Revenue Code of  
2           1986, the amount of the contribution disquali-  
3           fied by reason of section 415(g) of such Code  
4           shall reduce the exclusion allowance as provided  
5           in section 403(b)(2) of such Code.

6           (c) DEFERRED COMPENSATION PLANS OF STATE  
7   AND LOCAL GOVERNMENTS AND TAX-EXEMPT ORGANI-  
8   ZATIONS.—

9           (1) IN GENERAL.—Subparagraph (B) of section  
10          457(b)(2) (relating to salary limitation on eligible  
11          deferred compensation plans) is amended by striking  
12          “33 $\frac{1}{3}$  percent” and inserting “100 percent”.

13          (2) EFFECTIVE DATE.—The amendment made  
14          by this subsection shall apply to years beginning  
15          after December 31, 2000.

16   **SEC. 1223. FASTER VESTING OF CERTAIN EMPLOYER**  
17                           **MATCHING CONTRIBUTIONS.**

18          (a) IN GENERAL.—Section 411(a) (relating to min-  
19          imum vesting standards) is amended—

20               (1) in paragraph (2), by striking “A plan” and  
21               inserting “Except as provided in paragraph (12), a  
22               plan”, and

23               (2) by adding at the end the following:

24               “(12) FASTER VESTING FOR MATCHING CON-  
25               TRIBUTIONS.—In the case of matching contributions

1 (as defined in section 401(m)(4)(A)), paragraph (2)  
 2 shall be applied—

3 “(A) by substituting ‘3 years’ for ‘5 years’  
 4 in subparagraph (A), and

5 “(B) by substituting the following table for  
 6 the table contained in subparagraph (B):

<b>“Years of service:</b>	<b>The nonforfeitable percentage is:</b>
2 .....	20
3 .....	40
4 .....	60
5 .....	80
6 or more .....	100.”.

7 (b) EFFECTIVE DATES.—

8 (1) IN GENERAL.—Except as provided in para-  
 9 graph (2), the amendments made by this section  
 10 shall apply to plan years beginning after December  
 11 31, 2000.

12 (2) COLLECTIVE BARGAINING AGREEMENTS.—

13 In the case of a plan maintained pursuant to 1 or  
 14 more collective bargaining agreements between em-  
 15 ployee representatives and 1 or more employers rati-  
 16 fied by the date of the enactment of this Act, the  
 17 amendments made by this section shall not apply to  
 18 plan years beginning before the earlier of—

19 (A) the later of—

20 (i) the date on which the last of such  
 21 collective bargaining agreements termi-  
 22 nates (determined without regard to any



1 extension thereof on or after such date of  
2 enactment), or

3 (ii) January 1, 2001, or

4 (B) January 1, 2005.

5 (3) SERVICE REQUIRED.—With respect to any  
6 plan, the amendments made by this section shall not  
7 apply to any employee before the date that such em-  
8 ployee has 1 hour of service under such plan in any  
9 plan year to which the amendments made by this  
10 section apply.

11 **SEC. 1224. SIMPLIFY AND UPDATE THE MINIMUM DIS-**  
12 **TRIBUTION RULES.**

13 (a) SIMPLIFICATION AND FINALIZATION OF MIN-  
14 IMUM DISTRIBUTION REQUIREMENTS.—

15 (1) IN GENERAL.—The Secretary of the Treas-  
16 ury shall—

17 (A) simplify and finalize the regulations re-  
18 lating to minimum distribution requirements  
19 under sections 401(a)(9), 408(a)(6) and (b)(3),  
20 403(b)(10), and 457(d)(2) of the Internal Rev-  
21 enue Code of 1986, and

22 (B) modify such regulations to—

23 (i) reflect current life expectancy, and

24 (ii) revise the required distribution  
25 methods so that, under reasonable assump-

1                   tions, the amount of the required minimum  
2                   distribution does not decrease over a par-  
3                   ticipant's life expectancy.

4                   (2) FRESH START.—Notwithstanding subpara-  
5                   graph (D) of section 401(a)(9) of such Code, during  
6                   the first year that regulations are in effect under  
7                   this subsection, required distributions for future  
8                   years may be redetermined to reflect changes under  
9                   such regulations. Such redetermination shall include  
10                  the opportunity to choose a new designated bene-  
11                  ficiary and to elect a new method of calculating life  
12                  expectancy.

13                  (3) EFFECTIVE DATE FOR REGULATIONS.—  
14                  Regulations referred to in paragraph (1) shall be ef-  
15                  fective for years beginning after December 31, 2000,  
16                  and shall apply in such years without regard to  
17                  whether an individual had previously begun receiving  
18                  minimum distributions.

19                  (b) REPEAL OF RULE WHERE DISTRIBUTIONS HAD  
20                  BEGUN BEFORE DEATH OCCURS.—

21                  (1) IN GENERAL.—Subparagraph (B) of section  
22                  401(a)(9) is amended by striking clause (i) and re-  
23                  designating clauses (ii), (iii), and (iv) as clauses (i),  
24                  (ii), and (iii), respectively.

25                  (2) CONFORMING CHANGES.—

1 (A) Clause (i) of section 401(a)(9)(B) (as  
2 so redesignated) is amended—

3 (i) by striking “FOR OTHER CASES” in  
4 the heading, and

5 (ii) by striking “the distribution of the  
6 employee’s interest has begun in accord-  
7 ance with subparagraph (A)(ii)” and in-  
8 serting “his entire interest has been dis-  
9 tributed to him,”.

10 (B) Clause (ii) of section 401(a)(9)(B) (as  
11 so redesignated) is amended by striking “clause  
12 (ii)” and inserting “clause (i)”.

13 (C) Clause (iii) of section 401(a)(9)(B) (as  
14 so redesignated) is amended—

15 (i) by striking “clause (iii)(I)” and in-  
16 serting “clause (ii)(I)”,

17 (ii) in subclause (I) by striking  
18 “clause (iii)(III)” and inserting “clause  
19 (ii)(III)”,

20 (iii) in subclause (I) by striking “the  
21 date on which the employee would have at-  
22 tained the age 70½,” and inserting “April  
23 1 of the calendar year following the cal-  
24 endar year in which the spouse attains  
25 70½,” and

1 (iv) in subclause (II) by striking “the  
2 distributions to such spouse begin,” and  
3 inserting “his entire interest has been dis-  
4 tributed to him,”.

5 (3) EFFECTIVE DATE.—The amendments made  
6 by this subsection shall apply to years beginning  
7 after December 31, 2000.

8 (c) REDUCTION IN EXCISE TAX.—

9 (1) IN GENERAL.—Subsection (a) of section  
10 4974 is amended by striking “50 percent” and in-  
11 serting “10 percent”.

12 (2) EFFECTIVE DATE.—The amendment made  
13 by this subsection shall apply to years beginning  
14 after December 31, 2000.

15 **SEC. 1225. CLARIFICATION OF TAX TREATMENT OF DIVI-**  
16 **SION OF SECTION 457 PLAN BENEFITS UPON**  
17 **DIVORCE.**

18 (a) IN GENERAL.—Section 414(p)(11) (relating to  
19 application of rules to governmental and church plans) is  
20 amended—

21 (1) by inserting “or an eligible deferred com-  
22 pensation plan (within the meaning of section  
23 457(b))” after “subsection (e))”, and

1           (2) in the heading, by striking “GOVERN-  
2           MENTAL AND CHURCH PLANS” and inserting “CER-  
3           TAIN OTHER PLANS”.

4           (b) WAIVER OF CERTAIN DISTRIBUTION REQUIRE-  
5           MENTS.—Paragraph (10) of section 414(p) is amended by  
6           striking “and section 409(d)” and inserting “section  
7           409(d), and section 457(d)”.

8           (c) TAX TREATMENT OF PAYMENTS FROM A SEC-  
9           TION 457 PLAN.—Subsection (p) of section 414 is amend-  
10          ed by redesignating paragraph (12) as paragraph (13) and  
11          inserting after paragraph (11) the following new para-  
12          graph:

13                 “(12) TAX TREATMENT OF PAYMENTS FROM A  
14           SECTION 457 PLAN.—If a distribution or payment  
15           from an eligible deferred compensation plan de-  
16           scribed in section 457(b) is made pursuant to a  
17           qualified domestic relations order, rules similar to  
18           the rules of section 402(e)(1)(A) shall apply to such  
19           distribution or payment.”.

20           (d) EFFECTIVE DATE.—The amendments made by  
21           this section shall apply to transfers, distributions, and  
22           payments made after December 31, 2000.

1     **Subtitle C—Increasing Portability**  
2                     **for Participants**

3     **SEC. 1231. ROLLOVERS ALLOWED AMONG VARIOUS TYPES**  
4                     **OF PLANS.**

5             (a) ROLLOVERS FROM AND TO SECTION 457  
6 PLANS.—

7                 (1) ROLLOVERS FROM SECTION 457 PLANS.—

8                     (A) IN GENERAL.—Section 457(e) (relat-  
9                     ing to other definitions and special rules) is  
10                    amended by adding at the end the following:

11                    “(16) ROLLOVER AMOUNTS.—

12                         “(A) GENERAL RULE.—In the case of an  
13                         eligible deferred compensation plan established  
14                         and maintained by an employer described in  
15                         subsection (e)(1)(A), if—

16                             “(i) any portion of the balance to the  
17                             credit of an employee in such plan is paid  
18                             to such employee in an eligible rollover dis-  
19                             tribution (within the meaning of section  
20                             402(c)(4) without regard to subparagraph  
21                             (C) thereof),

22                             “(ii) the employee transfers any por-  
23                             tion of the property such employee receives  
24                             in such distribution to an eligible retire-

1                   ment plan described in section  
2                   402(c)(8)(B), and

3 “(iii) in the case of a distribution of  
4 property other than money, the amount so  
5 transferred consists of the property distrib-  
6 uted,

7            then such distribution (to the extent so trans-  
8            ferred) shall not be includible in gross income  
9            for the taxable year in which paid.

“(B) CERTAIN RULES MADE APPLICABLE.—The rules of paragraphs (2) through (7) (other than paragraph (4)(C)) and (9) of section 402(c) and section 402(f) shall apply for purposes of subparagraph (A).

“(C) REPORTING.—Rollovers under this paragraph shall be reported to the Secretary in the same manner as rollovers from qualified retirement plans (as defined in section 4974(c)).”.

(B) DEFERRAL LIMIT DETERMINED WITHOUT REGARD TO ROLLOVER AMOUNTS.—Section 457(b)(2) (defining eligible deferred compensation plan) is amended by inserting “(other than rollover amounts)” after “taxable year”.

1           (C) DIRECT ROLLOVER.—Paragraph (1) of  
2           section 457(d) is amended by striking “and” at  
3           the end of subparagraph (A), by striking the  
4           period at the end of subparagraph (B) and in-  
5           serting “, and”, and by inserting after subpara-  
6           graph (B) the following:

7           “(C) in the case of a plan maintained by  
8           an employer described in subsection (e)(1)(A),  
9           the plan meets requirements similar to the re-  
10          quirements of section 401(a)(31).

11          Any amount transferred in a direct trustee-to-trust-  
12          ee transfer in accordance with section 401(a)(31)  
13          shall not be includible in gross income for the tax-  
14          able year of transfer.”.

15          (D) WITHHOLDING.—

16                 (i) Paragraph (12) of section 3401(a)  
17                 is amended by adding at the end the fol-  
18                 lowing:

19                 “(E) under or to an eligible deferred com-  
20                 pensation plan which, at the time of such pay-  
21                 ment, is a plan described in section 457(b)  
22                 maintained by an employer described in section  
23                 457(e)(1)(A); or”.

24                 (ii) Paragraph (3) of section 3405(c)  
25                 is amended to read as follows:



1           “(3) ELIGIBLE ROLLOVER DISTRIBUTION.—For  
2           purposes of this subsection, the term ‘eligible roll-  
3           over distribution’ has the meaning given such term  
4           by section 402(f)(2)(A).”.

5                       (iii) LIABILITY FOR WITHHOLDING.—  
6           Subparagraph (B) of section 3405(d)(2) is  
7           amended by striking “or” at the end of  
8           clause (ii), by striking the period at the  
9           end of clause (iii) and inserting “, or”, and  
10          by adding at the end the following:

11                      “(iv) section 457(b).”.

12                      (2) ROLLOVERS TO SECTION 457 PLANS.—

13                      (A) IN GENERAL.—Section 402(c)(8)(B)  
14           (defining eligible retirement plan) is amended  
15           by striking “and” at the end of clause (iii), by  
16           striking the period at the end of clause (iv) and  
17           inserting “, and”, and by inserting after clause  
18           (iv) the following new clause:

19                      “(v) an eligible deferred compensation  
20           plan described in section 457(b) of an em-  
21           ployer described in section 457(e)(1)(A).”.

22                      (B) SEPARATE ACCOUNTING.—Section  
23           402(c) is amended by adding at the end the fol-  
24           lowing new paragraph:

1           “(11) SEPARATE ACCOUNTING.—Unless a plan  
2           described in clause (v) of paragraph (8)(B) agrees to  
3           separately account for amounts rolled into such plan  
4           from eligible retirement plans not described in such  
5           clause, the plan described in such clause may not ac-  
6           cept transfers or rollovers from such retirement  
7           plans.”.

8           (C) 10 PERCENT ADDITIONAL TAX.—Sub-  
9           section (t) of section 72 (relating to 10-percent  
10          additional tax on early distributions from quali-  
11          fied retirement plans) is amended by adding at  
12          the end the following new paragraph:

13          “(9) SPECIAL RULE FOR ROLLOVERS TO SEC-  
14          TION 457 PLANS.—For purposes of this subsection,  
15          a distribution from an eligible deferred compensation  
16          plan (as defined in section 457(b)) of an employer  
17          described in section 457(e)(1)(A) shall be treated as  
18          a distribution from a qualified retirement plan de-  
19          scribed in 4974(c)(1) to the extent that such dis-  
20          tribution is attributable to an amount transferred to  
21          an eligible deferred compensation plan from a quali-  
22          fied retirement plan (as defined in section  
23          4974(c)).”.

24          (b) ALLOWANCE OF ROLLOVERS FROM AND TO  
25          403(b) PLANS.—

1           (1) ROLLOVERS FROM SECTION 403(b)  
2 PLANS.—Section 403(b)(8)(A)(ii) (relating to roll-  
3 over amounts) is amended by striking “such dis-  
4 tribution” and all that follows and inserting “such  
5 distribution to an eligible retirement plan described  
6 in section 402(c)(8)(B), and”.

7           (2) ROLLOVERS TO SECTION 403(b) PLANS.—  
8 Section 402(c)(8)(B) (defining eligible retirement  
9 plan), as amended by subsection (a), is amended by  
10 striking “and” at the end of clause (iv), by striking  
11 the period at the end of clause (v) and inserting  
12 “, and”, and by inserting after clause (v) the fol-  
13 lowing new clause:

14                   “(vi) an annuity contract described in  
15                   section 403(b).”

16       (c) EXPANDED EXPLANATION TO RECIPIENTS OF  
17 ROLLOVER DISTRIBUTIONS.—Paragraph (1) of section  
18 402(f) (relating to written explanation to recipients of dis-  
19 tributions eligible for rollover treatment) is amended by  
20 striking “and” at the end of subparagraph (C), by striking  
21 the period at the end of subparagraph (D) and inserting  
22 “, and”, and by adding at the end the following new sub-  
23 paragraph:

24                   “(E) of the provisions under which dis-  
25                   tributions from the eligible retirement plan re-

1           ceiving the distribution may be subject to re-  
2           strictions and tax consequences which are dif-  
3           ferent from those applicable to distributions  
4           from the plan making such distribution.”.

5           (d) SPOUSAL ROLLOVERS.—Section 402(c)(9) (relat-  
6   ing to rollover where spouse receives distribution after  
7   death of employee) is amended by striking “; except that”  
8   and all that follows up to the end period.

9           (e) CONFORMING AMENDMENTS.—

10           (1) Section 72(o)(4) is amended by striking  
11   “and 408(d)(3)” and inserting “403(b)(8),  
12   408(d)(3), and 457(e)(16)”.

13           (2) Section 219(d)(2) is amended by striking  
14   “or 408(d)(3)” and inserting “408(d)(3), or  
15   457(e)(16)”.

16           (3) Section 401(a)(31)(B) is amended by strik-  
17   ing “and 403(a)(4)” and inserting “, 403(a)(4),  
18   403(b)(8), and 457(e)(16)”.

19           (4) Subparagraph (A) of section 402(f)(2) is  
20   amended by striking “or paragraph (4) of section  
21   403(a)” and inserting “, paragraph (4) of section  
22   403(a), subparagraph (A) of section 403(b)(8), or  
23   subparagraph (A) of section 457(e)(16)”.

24           (5) Paragraph (1) of section 402(f) is amended  
25   by striking “from an eligible retirement plan”.

1           (6) Subparagraphs (A) and (B) of section  
2           402(f)(1) are amended by striking “another eligible  
3           retirement plan” and inserting “an eligible retire-  
4           ment plan”.

5           (7) Subparagraph (B) of section 403(b)(8) is  
6           amended to read as follows:

7                   “(B) CERTAIN RULES MADE APPLICA-  
8                   BLE.—The rules of paragraphs (2) through (7)  
9                   and (9) of section 402(c) and section 402(f)  
10                  shall apply for purposes of subparagraph (A),  
11                  except that section 402(f) shall be applied to  
12                  the payor in lieu of the plan administrator.”.

13          (8) Section 408(a)(1) is amended by striking  
14          “or 403(b)(8)” and inserting “, 403(b)(8), or  
15          457(e)(16)”.

16          (9) Subparagraphs (A) and (B) of section  
17          415(b)(2) are each amended by striking “and  
18          408(d)(3)” and inserting “403(b)(8), 408(d)(3), and  
19          457(e)(16)”.

20          (10) Section 415(c)(2) is amended by striking  
21          “and 408(d)(3)” and inserting “408(d)(3), and  
22          457(e)(16)”.

23          (11) Section 4973(b)(1)(A) is amended by  
24          striking “or 408(d)(3)” and inserting “408(d)(3), or  
25          457(e)(16)”.

1 (f) EFFECTIVE DATE; SPECIAL RULE.—

2 (1) EFFECTIVE DATE.—The amendments made  
3 by this section shall apply to distributions after De-  
4 cember 31, 2000.

5 (2) SPECIAL RULE.—Notwithstanding any other  
6 provision of law, subsections (h)(3) and (h)(5) of  
7 section 1122 of the Tax Reform Act of 1986 shall  
8 not apply to any distribution from an eligible retire-  
9 ment plan (as defined in clause (iii) or (iv) of section  
10 402(c)(8)(B) of the Internal Revenue Code of 1986)  
11 on behalf of an individual if there was a rollover to  
12 such plan on behalf of such individual which is per-  
13 mitted solely by reason of any amendment made by  
14 this section.

15 **SEC. 1232. ROLLOVERS OF IRAS INTO WORKPLACE RETIRE-**  
16 **MENT PLANS.**

17 (a) IN GENERAL.—Subparagraph (A) of section  
18 408(d)(3) (relating to rollover amounts) is amended by  
19 adding “or” at the end of clause (i), by striking clauses  
20 (ii) and (iii), and by adding at the end the following:

21 “(ii) the entire amount received (in-  
22 cluding money and any other property) is  
23 paid into an eligible retirement plan for  
24 the benefit of such individual not later  
25 than the 60th day after the date on which

1           the payment or distribution is received, ex-  
2           cept that the maximum amount which may  
3           be paid into such plan may not exceed the  
4           portion of the amount received which is in-  
5           cludible in gross income (determined with-  
6           out regard to this paragraph).

7           For purposes of clause (ii), the term ‘eligible re-  
8           tirement plan’ has the meaning given such term  
9           by clauses (iii), (iv), (v), and (vi) of section  
10          402(c)(8)(B).”.

11       (b) CONFORMING AMENDMENTS.—

12           (1) Paragraph (1) of section 403(b) is amended  
13       by striking “section 408(d)(3)(A)(iii)” and inserting  
14       “section 408(d)(3)(A)(ii)”.

15           (2) Clause (i) of section 408(d)(3)(D) is amend-  
16       ed by striking “(i), (ii), or (iii)” and inserting “(i)  
17       or (ii)”.

18           (3) Subparagraph (G) of section 408(d)(3) is  
19       amended to read as follows:

20           “(G) SIMPLE RETIREMENT ACCOUNTS.—In  
21       the case of any payment or distribution out of  
22       a simple retirement account (as defined in sub-  
23       section (p)) to which section 72(t)(6) applies,  
24       this paragraph shall not apply unless such pay-

1           ment or distribution is paid into another simple  
2           retirement account.”.

3       (c) EFFECTIVE DATE; SPECIAL RULE.—

4           (1) EFFECTIVE DATE.—The amendments made  
5       by this section shall apply to distributions after De-  
6       cember 31, 2000.

7           (2) SPECIAL RULE.—Notwithstanding any other  
8       provision of law, subsections (h)(3) and (h)(5) of  
9       section 1122 of the Tax Reform Act of 1986 shall  
10      not apply to any distribution from an eligible retire-  
11      ment plan (as defined in clause (iii) or (iv) of section  
12      402(c)(8)(B) of the Internal Revenue Code of 1986)  
13      on behalf of an individual if there was a rollover to  
14      such plan on behalf of such individual which is per-  
15      mitted solely by reason of the amendments made by  
16      this section.

17   **SEC. 1233. ROLLOVERS OF AFTER-TAX CONTRIBUTIONS.**

18       (a) ROLLOVERS FROM EXEMPT TRUSTS.—Para-  
19      graph (2) of section 402(c) (relating to maximum amount  
20      which may be rolled over) is amended by adding at the  
21      end the following: “The preceding sentence shall not apply  
22      to such distribution to the extent—

23                   “(A) such portion is transferred in a direct  
24                   trustee-to-trustee transfer to a qualified trust  
25                   which is part of a plan which is a defined con-



1           tribution plan and which agrees to separately  
2           account for amounts so transferred, including  
3           separately accounting for the portion of such  
4           distribution which is includible in gross income  
5           and the portion of such distribution which is  
6           not so includible, or

7                   “(B) such portion is transferred to an eli-  
8           gible retirement plan described in clause (i) or  
9           (ii) of paragraph (8)(B).”.

10       (b) OPTIONAL DIRECT TRANSFER OF ELIGIBLE  
11 ROLLOVER DISTRIBUTIONS.—Subparagraph (B) of sec-  
12 tion 401(a)(31) (relating to limitation) is amended by add-  
13 ing at the end the following: “The preceding sentence shall  
14 not apply to such distribution if the plan to which such  
15 distribution is transferred—

16                   “(i) agrees to separately account for  
17           amounts so transferred, including sepa-  
18           rately accounting for the portion of such  
19           distribution which is includible in gross in-  
20           come and the portion of such distribution  
21           which is not so includible, or

22                   “(ii) is an eligible retirement plan de-  
23           scribed in clause (i) or (ii) of section  
24           402(c)(8)(B).”.

(c) RULES FOR APPLYING SECTION 72 TO IRAS.—  
Paragraph (3) of section 408(d) (relating to special rules  
for applying section 72) is amended by inserting at the  
end the following:

5 “(H) APPLICATION OF SECTION 72.—

6 “(i) IN GENERAL.—If—

7 “(I) a distribution is made from  
8 an individual retirement plan, and

9 “(II) a rollover contribution is  
10 made to an eligible retirement plan  
11 described in section 402(c)(8)(B)(iii),  
12 (iv), (v), or (vi) with respect to all or  
13 part of such distribution,

then, notwithstanding paragraph (2), the  
rules of clause (ii) shall apply for purposes  
of applying section 72.

17 “(ii) APPLICABLE RULES.—In the  
18 case of a distribution described in clause  
19 (i)—

20 “(I) section 72 shall be applied  
21 separately to such distribution,

“(II) notwithstanding the pro rata allocation of income on, and investment in the contract, to distributions under section 72, the portion of

1           such distribution rolled over to an eli-  
2           gible retirement plan described in  
3           clause (i) shall be treated as from in-  
4           come on the contract (to the extent of  
5           the aggregate income on the contract  
6           from all individual retirement plans of  
7           the distributee), and

8                   “(III) appropriate adjustments  
9           shall be made in applying section 72  
10          to other distributions in such taxable  
11          year and subsequent taxable years.”

12          (d) EFFECTIVE DATE.—The amendments made by  
13          this section shall apply to distributions made after Decem-  
14          ber 31, 2000.

15   **SEC. 1234. HARDSHIP EXCEPTION TO 60-DAY RULE.**

16          (a) EXEMPT TRUSTS.—Paragraph (3) of section  
17          402(c) (relating to transfer must be made within 60 days  
18          of receipt) is amended to read as follows:

19                   “(3) TRANSFER MUST BE MADE WITHIN 60  
20          DAYS OF RECEIPT.—

21                   “(A) IN GENERAL.—Except as provided in  
22          subparagraph (B), paragraph (1) shall not  
23          apply to any transfer of a distribution made  
24          after the 60th day following the day on which

1           the distributee received the property distrib-  
2           uted.

3                   “(B) HARDSHIP EXCEPTION.—The Sec-  
4           retary may waive the 60-day requirement under  
5           subparagraph (A) where the failure to waive  
6           such requirement would be against equity or  
7           good conscience, including casualty, disaster, or  
8           other events beyond the reasonable control of  
9           the individual subject to such requirement.”.

10          (b) IRAS.—Paragraph (3) of section 408(d) (relating  
11   to rollover contributions) is amended by adding after sub-  
12   paragraph (H) the following new subparagraph:

13                   “(I) WAIVER OF 60-DAY REQUIREMENT.—  
14           The Secretary may waive the 60-day require-  
15           ment under subparagraphs (A) and (D) where  
16           the failure to waive such requirement would be  
17           against equity or good conscience, including  
18           casualty, disaster, or other events beyond the  
19           reasonable control of the individual subject to  
20           such requirement.”.

21          (c) EFFECTIVE DATE.—The amendments made by  
22   this section shall apply to distributions after December 31,  
23   2000.

24   **SEC. 1235. TREATMENT OF FORMS OF DISTRIBUTION.**

25          (a) PLAN TRANSFERS.—

1           (1) IN GENERAL.—Paragraph (6) of section  
2   411(d) (relating to accrued benefit not to be de-  
3   creased by amendment) is amended by adding at the  
4   end the following:

5           “(D) PLAN TRANSFERS.—

6           “(i) A defined contribution plan (in  
7   this subparagraph referred to as the  
8   ‘transferee plan’) shall not be treated as  
9   failing to meet the requirements of this  
10   subsection merely because the transferee  
11   plan does not provide some or all of the  
12   forms of distribution previously available  
13   under another defined contribution plan  
14   (in this subparagraph referred to as the  
15   ‘transferor plan’) to the extent that—

16           “(I) the forms of distribution  
17   previously available under the trans-  
18   feror plan applied to the account of a  
19   participant or beneficiary under the  
20   transferor plan that was transferred  
21   from the transferor plan to the trans-  
22   feree plan pursuant to a direct trans-  
23   fer rather than pursuant to a distribu-  
24   tion from the transferor plan;

1                   “(II) the terms of both the trans-  
2                   feror plan and the transferee plan au-  
3                   thorize the transfer described in sub-  
4                   clause (I);

5                   “(III) the transfer described in  
6                   subclause (I) was made pursuant to a  
7                   voluntary election by the participant  
8                   or beneficiary whose account was  
9                   transferred to the transferee plan;

10                  “(IV) the election described in  
11                  subclause (III) was made after the  
12                  participant or beneficiary received a  
13                  notice describing the consequences of  
14                  making the election;

15                  “(V) if the transferor plan pro-  
16                  vides for an annuity as the normal  
17                  form of distribution under the plan in  
18                  accordance with section 417, the  
19                  transfer is made with the consent of  
20                  the participant’s spouse (if any), and  
21                  such consent meets requirements simi-  
22                  lar to the requirements imposed by  
23                  section 417(a)(2); and

24                  “(VI) the transferee plan allows  
25                  the participant or beneficiary de-

1                   scribed in subclause (III) to receive  
2                   any distribution to which the partici-  
3                   pant or beneficiary is entitled under  
4                   the transferee plan in the form of a  
5                   single sum distribution.

6                   “(ii) Clause (i) shall apply to plan  
7                   mergers and other transactions having the  
8                   effect of a direct transfer, including con-  
9                   solidations of benefits attributable to dif-  
10                  ferent employers within a multiple em-  
11                  ployer plan.

12                  “(E) ELIMINATION OF FORM OF DISTRIBU-  
13                  TION.—Except to the extent provided in regula-  
14                  tions, a defined contribution plan shall not be  
15                  treated as failing to meet the requirements of  
16                  this section merely because of the elimination of  
17                  a form of distribution previously available there-  
18                  under. This subparagraph shall not apply to the  
19                  elimination of a form of distribution with re-  
20                  spect to any participant unless—

21                  “(i) a single sum payment is available  
22                  to such participant at the same time or  
23                  times as the form of distribution being  
24                  eliminated; and

1                   “(ii) such single sum payment is  
2                   based on the same or greater portion of  
3                   the participant’s account as the form of  
4                   distribution being eliminated.”.

5                   (2) EFFECTIVE DATE.—The amendment made  
6                   by this subsection shall apply to years beginning  
7                   after December 31, 2000.

8                   (b) REGULATIONS.—

9                   (1) IN GENERAL.—The last sentence of para-  
10                  graph (6)(B) of section 411(d) (relating to accrued  
11                  benefit not to be decreased by amendment) is  
12                  amended to read as follows: “The Secretary may by  
13                  regulations provide that this subparagraph shall not  
14                  apply to any plan amendment that does not ad-  
15                  versely affect the rights of participants in a material  
16                  manner.”.

17                  (2) SECRETARY DIRECTED.—Not later than  
18                  December 31, 2001, the Secretary of the Treasury  
19                  is directed to issue final regulations under section  
20                  411(d)(6) of the Internal Revenue Code of 1986.  
21                  Such regulations shall apply to plan years beginning  
22                  after December 31, 2001, or such earlier date as is  
23                  specified by the Secretary of the Treasury.



1 **SEC. 1236. RATIONALIZATION OF RESTRICTIONS ON DIS-**  
2 **TRIBUTIONS.**

3 (a) MODIFICATION OF SAME DESK EXCEPTION.—

4 (1) SECTION 401(k).—

5 (A) Section 401(k)(2)(B)(i)(I) (relating to  
6 qualified cash or deferred arrangements) is  
7 amended by striking “separation from service”  
8 and inserting “severance from employment”.

9 (B) Subparagraph (A) of section  
10 401(k)(10) (relating to distributions upon ter-  
11 mination of plan or disposition of assets or sub-  
12 sidiary) is amended to read as follows:

13 “(A) IN GENERAL.—An event described in  
14 this subparagraph is the termination of the  
15 plan without establishment or maintenance of  
16 another defined contribution plan (other than  
17 an employee stock ownership plan as defined in  
18 section 4975(e)(7)).”.

19 (C) Section 401(k)(10) is amended—

20 (i) in subparagraph (B)—

21 (I) by striking “An event” in  
22 clause (i) and inserting “A termi-  
23 nation”, and

24 (II) by striking “the event” in  
25 clause (i) and inserting “the termi-  
26 nation”,

1 (ii) by striking subparagraph (C), and  
2 (iii) by striking “OR DISPOSITION OF  
3 ASSETS OR SUBSIDIARY” in the heading.

4 (2) SECTION 403(b).—

5 (A) Paragraphs (7)(A)(ii) and (11)(A) of  
6 section 403(b) are each amended by striking  
7 “separates from service” and inserting “has a  
8 severance from employment”.

9 (B) The heading for paragraph (11) of  
10 section 403(b) is amended by striking “SEPARA-  
11 TION FROM SERVICE” and inserting “SEVER-  
12 ANCE FROM EMPLOYMENT”.

13 (3) SECTION 457.—Clause (ii) of section  
14 457(d)(1)(A) is amended by striking “is separated  
15 from service” and inserting “has a severance from  
16 employment”.

17 (b) EFFECTIVE DATE.—The amendments made by  
18 this section shall apply to distributions after December 31,  
19 2000.

20 **SEC. 1237. PURCHASE OF SERVICE CREDIT IN GOVERN-**  
21 **MENTAL DEFINED BENEFIT PLANS.**

22 (a) 403(b) PLANS.—Subsection (b) of section 403 is  
23 amended by adding at the end the following new para-  
24 graph:

1           “(13) TRUSTEE-TO-TRUSTEE TRANSFERS TO  
2 PURCHASE PERMISSIVE SERVICE CREDIT.—No  
3 amount shall be includible in gross income by reason  
4 of a direct trustee-to-trustee transfer to a defined  
5 benefit governmental plan (as defined in section  
6 414(d)) if such transfer is—

7           “(A) for the purchase of permissive service  
8 credit (as defined in section 415(n)(3)(A))  
9 under such plan, or

10           “(B) a repayment to which section 415  
11 does not apply by reason of subsection (k)(3)  
12 thereof.”.

13 (b) 457 PLANS.—

14           (1) Subsection (e) of section 457 is amended by  
15 adding after paragraph (17) the following new para-  
16 graph:

17           “(18) TRUSTEE-TO-TRUSTEE TRANSFERS TO  
18 PURCHASE PERMISSIVE SERVICE CREDIT.—No  
19 amount shall be includible in gross income by reason  
20 of a direct trustee-to-trustee transfer to a defined  
21 benefit governmental plan (as defined in section  
22 414(d)) if such transfer is—

23           “(A) for the purchase of permissive service  
24 credit (as defined in section 415(n)(3)(A))  
25 under such plan, or

1                   “(B) a repayment to which section 415  
2                   does not apply by reason of subsection (k)(3)  
3                   thereof.”.

4                   (2) Section 457(b)(2) is amended by striking  
5                   “(other than rollover amounts)” and inserting  
6                   “(other than rollover amounts and amounts received  
7                   in a transfer referred to in subsection (e)(16))”.

8                   (c) EFFECTIVE DATE.—The amendments made by  
9                   this section shall apply to trustee-to-trustee transfers after  
10                  December 31, 2000.

11   **SEC. 1238. EMPLOYERS MAY DISREGARD ROLLOVERS FOR**  
12                   **PURPOSES OF CASH-OUT AMOUNTS.**

13                  (a) IN GENERAL.—Section 411(a)(11) (relating to  
14                  restrictions on certain mandatory distributions) is amend-  
15                  ed by adding at the end the following:

16                         “(D) SPECIAL RULE FOR ROLLOVER CON-  
17                         TRIBUTIONS.—A plan shall not fail to meet the  
18                         requirements of this paragraph if, under the  
19                         terms of the plan, the present value of the non-  
20                         forfeitable accrued benefit is determined with-  
21                         out regard to that portion of such benefit which  
22                         is attributable to rollover contributions (and  
23                         earnings allocable thereto). For purposes of this  
24                         subparagraph, the term ‘rollover contributions’  
25                         means any rollover contribution under sections

1           402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii),  
2           and 457(e)(16).”.

3           (b) ELIGIBLE DEFERRED COMPENSATION PLANS.—  
4   Clause (i) of section 457(e)(9)(A) is amended by striking  
5   “such amount” and inserting “the portion of such amount  
6   which is not attributable to rollover contributions (as de-  
7   fined in section 411(a)(11)(D))”.

8           (c) EFFECTIVE DATE.—The amendments made by  
9   this section shall apply to distributions after December 31,  
10   2000.

11   **SEC. 1239. MINIMUM DISTRIBUTION AND INCLUSION RE-**  
12           **QUIREMENTS FOR SECTION 457 PLANS.**

13           (a) MINIMUM DISTRIBUTION REQUIREMENTS.—  
14   Paragraph (2) of section 457(d) (relating to distribution  
15   requirements) is amended to read as follows:

16           “(2) MINIMUM DISTRIBUTION REQUIRE-  
17           MENTS.—A plan meets the minimum distribution re-  
18           quirements of this paragraph if such plan meets the  
19           requirements of section 401(a)(9).”

20           (b) INCLUSION IN GROSS INCOME.—

21           (1) YEAR OF INCLUSION.—Subsection (a) of  
22           section 457 (relating to year of inclusion in gross in-  
23           come) is amended to read as follows:

24           “(a) YEAR OF INCLUSION IN GROSS INCOME.—

1           “(1) IN GENERAL.—Any amount of compensa-  
2           tion deferred under an eligible deferred compensa-  
3           tion plan, and any income attributable to the  
4           amounts so deferred, shall be includible in gross in-  
5           come only for the taxable year in which such com-  
6           pensation or other income—

7                   “(A) is paid to the participant or other  
8           beneficiary, in the case of a plan of an eligible  
9           employer described in subsection (e)(1)(A), and

10                   “(B) is paid or otherwise made available to  
11           the participant or other beneficiary, in the case  
12           of a plan of an eligible employer described in  
13           subsection (e)(1)(B).

14           “(2) SPECIAL RULE FOR ROLLOVER  
15           AMOUNTS.—To the extent provided in section  
16           72(t)(9), section 72(t) shall apply to any amount in-  
17           cludible in gross income under this subsection.”.

18           (2) CONFORMING AMENDMENT.—So much of  
19           paragraph (9) of section 457(e) as precedes subpara-  
20           graph (A) is amended to read as follows:

21                   “(9) BENEFITS OF TAX EXEMPT ORGANIZATION  
22           PLANS NOT TREATED AS MADE AVAILABLE BY REA-  
23           SON OF CERTAIN ELECTIONS, ETC.—In the case of  
24           an eligible deferred compensation plan of an em-  
25           ployer described in subsection (e)(1)(B)—”.

1 (c) EFFECTIVE DATE.—The amendments made by  
 2 this section shall apply to distributions after December 31,  
 3 2000.

4 **Subtitle D—Strengthening Pension**  
 5 **Security and Enforcement**

6 **SEC. 1241. REPEAL OF 150 PERCENT OF CURRENT LIABIL-**  
 7 **ITY FUNDING LIMIT.**

8 (a) IN GENERAL.—Section 412(c)(7) (relating to  
 9 full-funding limitation) is amended—

10 (1) by striking “the applicable percentage” in  
 11 subparagraph (A)(i)(I) and inserting “in the case of  
 12 plan years beginning before January 1, 2004, the  
 13 applicable percentage”, and

14 (2) by amending subparagraph (F) to read as  
 15 follows:

16 “(F) APPLICABLE PERCENTAGE.—For  
 17 purposes of subparagraph (A)(i)(I), the applica-  
 18 ble percentage shall be determined in accord-  
 19 ance with the following table:

<b>“In the case of any plan year beginning in—</b>	<b>The applicable percentage is—</b>
2001 .....	160
2002 .....	165
2003 .....	170.”.

20 (b) EFFECTIVE DATE.—The amendments made by  
 21 this section shall apply to plan years beginning after De-  
 22 cember 31, 2000.

1 **SEC. 1242. MAXIMUM CONTRIBUTION DEDUCTION RULES**  
2 **MODIFIED AND APPLIED TO ALL DEFINED**  
3 **BENEFIT PLANS.**

4 (a) IN GENERAL.—Subparagraph (D) of section  
5 404(a)(1) (relating to special rule in case of certain plans)  
6 is amended to read as follows:

7 “(D) SPECIAL RULE IN CASE OF CERTAIN  
8 PLANS.—

9 “(i) IN GENERAL.—In the case of any  
10 defined benefit plan, except as provided in  
11 regulations, the maximum amount deduct-  
12 ible under the limitations of this paragraph  
13 shall not be less than the unfunded termi-  
14 nation liability (determined as if the pro-  
15 posed termination date referred to in sec-  
16 tion 4041(b)(2)(A)(i)(II) of the Employee  
17 Retirement Income Security Act of 1974  
18 were the last day of the plan year).

19 “(ii) PLANS WITH LESS THAN 100  
20 PARTICIPANTS.—For purposes of this sub-  
21 paragraph, in the case of a plan which has  
22 less than 100 participants for the plan  
23 year, termination liability shall not include  
24 the liability attributable to benefit in-  
25 creases for highly compensated employees  
26 (as defined in section 414(q)) resulting



1 from a plan amendment which is made or  
2 becomes effective, whichever is later, within  
3 the last 2 years before the termination  
4 date.

5 “(iii) RULE FOR DETERMINING NUM-  
6 BER OF PARTICIPANTS.—For purposes of  
7 determining whether a plan has more than  
8 100 participants, all defined benefit plans  
9 maintained by the same employer (or any  
10 member of such employer’s controlled  
11 group (within the meaning of section  
12 412(l)(8)(C))) shall be treated as 1 plan,  
13 but only employees of such member or em-  
14 ployer shall be taken into account.

15 “(iv) PLANS ESTABLISHED AND MAIN-  
16 TAIN BY PROFESSIONAL SERVICE EMPLOY-  
17 ERS.—Clause (i) shall not apply to a plan  
18 described in section 4021(b)(13) of the  
19 Employee Retirement Income Security Act  
20 of 1974.”.

21 (b) CONFORMING AMENDMENT.—Paragraph (6) of  
22 section 4972(c) is amended to read as follows:

23 “(6) EXCEPTIONS.—In determining the amount  
24 of nondeductible contributions for any taxable year,  
25 there shall not be taken into account so much of the

1 contributions to 1 or more defined contribution  
2 plans which are not deductible when contributed  
3 solely because of section 404(a)(7) as does not ex-  
4 ceed the greater of—

5 “(A) the amount of contributions not in  
6 excess of 6 percent of compensation (within the  
7 meaning of section 404(a)) paid or accrued  
8 (during the taxable year for which the contribu-  
9 tions were made) to beneficiaries under the  
10 plans, or

11 “(B) the sum of—

12 “(i) the amount of contributions de-  
13 scribed in section 401(m)(4)(A), plus

14 “(ii) the amount of contributions de-  
15 scribed in section 402(g)(3)(A).

16 For purposes of this paragraph, the deductible limits  
17 under section 404(a)(7) shall first be applied to  
18 amounts contributed to a defined benefit plan and  
19 then to amounts described in subparagraph (B).”.

20 (c) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to plan years beginning after De-  
22 cember 31, 2000.

23 **SEC. 1243. MISSING PARTICIPANTS.**

24 (a) IN GENERAL.—Section 4050 of the Employee Re-  
25 tirement Income Security Act of 1974 (29 U.S.C. 1350)

1 is amended by redesignating subsection (c) as subsection  
2 (e) and by inserting after subsection (b) the following:

3 “(c) MULTIEMPLOYER PLANS.—The corporation  
4 shall prescribe rules similar to the rules in subsection (a)  
5 for multiemployer plans covered by this title that termi-  
6 nate under section 4041A.

7 “(d) PLANS NOT OTHERWISE SUBJECT TO TITLE.—

8 “(1) TRANSFER TO CORPORATION.—The plan  
9 administrator of a plan described in paragraph (4)  
10 may elect to transfer a missing participant’s benefits  
11 to the corporation upon termination of the plan.

12 “(2) INFORMATION TO THE CORPORATION.—To  
13 the extent provided in regulations, the plan adminis-  
14 trator of a plan described in paragraph (4) shall,  
15 upon termination of the plan, provide the corpora-  
16 tion information with respect to benefits of a miss-  
17 ing participant if the plan transfers such benefits—

18 “(A) to the corporation, or

19 “(B) to an entity other than the corpora-  
20 tion or a plan described in paragraph (4)(B)(ii).

21 “(3) PAYMENT BY THE CORPORATION.—If ben-  
22 efits of a missing participant were transferred to the  
23 corporation under paragraph (1), the corporation  
24 shall, upon location of the participant or beneficiary,  
25 pay to the participant or beneficiary the amount

1 transferred (or the appropriate survivor benefit)  
2 either—

3 “(A) in a single sum (plus interest), or  
4 “(B) in such other form as is specified in  
5 regulations of the corporation.

6 “(4) PLANS DESCRIBED.—A plan is described  
7 in this paragraph if—

8 “(A) the plan is a pension plan (within the  
9 meaning of section 3(2))—

10 “(i) to which the provisions of this  
11 section do not apply (without regard to  
12 this subsection), and

13 “(ii) which is not a plan described in  
14 paragraphs (2) through (11) of section  
15 4021(b), and

16 “(B) at the time the assets are to be dis-  
17 tributed upon termination, the plan—

18 “(i) has missing participants, and

19 “(ii) has not provided for the transfer  
20 of assets to pay the benefits of all missing  
21 participants to another pension plan (with-  
22 in the meaning of section 3(2)).

23 “(5) CERTAIN PROVISIONS NOT TO APPLY.—  
24 Subsections (a)(1) and (a)(3) shall not apply to a  
25 plan described in paragraph (4).”.

1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to distributions made after final  
3 regulations implementing subsections (c) and (d) of sec-  
4 tion 4050 of the Employee Retirement Income Security  
5 Act of 1974 (as added by subsection (a)), respectively, are  
6 prescribed.

7 **SEC. 1244. EXCISE TAX RELIEF FOR SOUND PENSION FUND-**  
8 **ING.**

9 (a) IN GENERAL.—Subsection (c) of section 4972  
10 (relating to nondeductible contributions) is amended by  
11 adding at the end the following new paragraph:

12 “(7) DEFINED BENEFIT PLAN EXCEPTION.—In  
13 determining the amount of nondeductible contribu-  
14 tions for any taxable year, an employer may elect for  
15 such year not to take into account any contributions  
16 to a defined benefit plan except to the extent that  
17 such contributions exceed the full-funding limitation  
18 (as defined in section 412(c)(7), determined without  
19 regard to subparagraph (A)(i)(I) thereof). For pur-  
20 poses of this paragraph, the deductible limits under  
21 section 404(a)(7) shall first be applied to amounts  
22 contributed to defined contribution plans and then  
23 to amounts described in this paragraph. If an em-  
24 ployer makes an election under this paragraph for a

1 taxable year, paragraph (6) shall not apply to such  
2 employer for such taxable year.”.

3 (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to years beginning after December  
5 31, 2000.

6 **SEC. 1245. EXCISE TAX ON FAILURE TO PROVIDE NOTICE**  
7 **BY DEFINED BENEFIT PLANS SIGNIFICANTLY**  
8 **REDUCING FUTURE BENEFIT ACCRUALS.**

9 (a) IN GENERAL.—Chapter 43 of subtitle D (relating  
10 to qualified pension, etc., plans) is amended by adding at  
11 the end the following new section:

12 **“SEC. 4980F. FAILURE OF APPLICABLE PLANS REDUCING**  
13 **BENEFIT ACCRUALS TO SATISFY NOTICE RE-**  
14 **QUIREMENTS.**

15 “(a) IMPOSITION OF TAX.—There is hereby imposed  
16 a tax on the failure of any applicable pension plan to meet  
17 the requirements of subsection (e) with respect to any ap-  
18 plicable individual.

19 “(b) AMOUNT OF TAX.—

20 “(1) IN GENERAL.—The amount of the tax im-  
21 posed by subsection (a) on any failure with respect  
22 to any applicable individual shall be \$100 for each  
23 day in the noncompliance period with respect to such  
24 failure.

1           “(2) NONCOMPLIANCE PERIOD.—For purposes  
2           of this section, the term ‘noncompliance period’  
3           means, with respect to any failure, the period begin-  
4           ning on the date the failure first occurs and ending  
5           on the date the failure is corrected.

6           “(c) LIMITATIONS ON AMOUNT OF TAX.—

7           “(1) OVERALL LIMITATION FOR UNINTEN-  
8           TIONAL FAILURES.—In the case of failures that are  
9           due to reasonable cause and not to willful neglect,  
10          the tax imposed by subsection (a) for failures during  
11          the taxable year of the employer (or, in the case of  
12          a multiemployer plan, the taxable year of the trust  
13          forming part of the plan) shall not exceed \$500,000.  
14          For purposes of the preceding sentence, all multiem-  
15          ployer plans of which the same trust forms a part  
16          shall be treated as 1 plan. For purposes of this  
17          paragraph, if not all persons who are treated as a  
18          single employer for purposes of this section have the  
19          same taxable year, the taxable years taken into ac-  
20          count shall be determined under principles similar to  
21          the principles of section 1561.

22          “(2) WAIVER BY SECRETARY.—In the case of a  
23          failure which is due to reasonable cause and not to  
24          willful neglect, the Secretary may waive part or all  
25          of the tax imposed by subsection (a) to the extent

1       that the payment of such tax would be excessive rel-  
2       ative to the failure involved.

3       “(d) LIABILITY FOR TAX.—The following shall be lia-  
4       ble for the tax imposed by subsection (a):

5               “(1) In the case of a plan other than a multi-  
6       employer plan, the employer.

7               “(2) In the case of a multiemployer plan, the  
8       plan.

9       “(e) NOTICE REQUIREMENTS FOR PLANS SIGNIFI-  
10       CANTLY REDUCING BENEFIT ACCRUALS.—

11               “(1) IN GENERAL.—If an applicable pension  
12       plan is amended to provide for a significant reduc-  
13       tion in the rate of future benefit accrual, the plan  
14       administrator shall provide written notice to each  
15       applicable individual (and to each employee organi-  
16       zation representing applicable individuals).

17               “(2) NOTICE.—The notice required by para-  
18       graph (1) shall be written in a manner calculated to  
19       be understood by the average plan participant and  
20       shall provide sufficient information (as determined  
21       in accordance with regulations prescribed by the  
22       Secretary) to allow applicable individuals to under-  
23       stand the effect of the plan amendment.

24               “(3) TIMING OF NOTICE.—Except as provided  
25       in regulations, the notice required by paragraph (1)



1       shall be provided within a reasonable time before the  
2       effective date of the plan amendment.

3               “(4) DESIGNEES.—Any notice under paragraph  
4       (1) may be provided to a person designated, in writ-  
5       ing, by the person to which it would otherwise be  
6       provided.

7               “(5) NOTICE BEFORE ADOPTION OF AMEND-  
8       MENT.—A plan shall not be treated as failing to  
9       meet the requirements of paragraph (1) merely be-  
10      cause notice is provided before the adoption of the  
11      plan amendment if no material modification of the  
12      amendment occurs before the amendment is adopt-  
13      ed.

14              “(f) APPLICABLE INDIVIDUAL; APPLICABLE PEN-  
15      SION PLAN.—For purposes of this section—

16              “(1) APPLICABLE INDIVIDUAL.—The term ‘ap-  
17      plicable individual’ means, with respect to any plan  
18      amendment—

19                      “(A) any participant in the plan, and

20                      “(B) any beneficiary who is an alternate  
21      payee (within the meaning of section 414(p)(8))  
22      under an applicable qualified domestic relations  
23      order (within the meaning of section  
24      414(p)(1)(A)),

1       who may reasonably be expected to be affected by  
2       such plan amendment.

3               “(2) APPLICABLE PENSION PLAN.—The term  
4       ‘applicable pension plan’ means—

5                       “(A) any defined benefit plan, or

6                       “(B) an individual account plan which is  
7               subject to the funding standards of section 412,  
8       which had 100 or more participants who had ac-  
9       crued a benefit, or with respect to whom contribu-  
10      tions were made, under the plan (whether or not  
11      vested) as of the last day of the plan year preceding  
12      the plan year in which the plan amendment becomes  
13      effective.”

14       (b) CLERICAL AMENDMENT.—The table of sections  
15      for chapter 43 of subtitle D is amended by adding at the  
16      end the following new item:

      “Sec. 4980F. Failure of applicable plans reducing benefit accruals to satisfy no-  
          tice requirements.”

17       (c) EFFECTIVE DATES.—

18               (1) IN GENERAL.—The amendments made by  
19       this section shall apply to plan amendments taking  
20       effect on or after the date of the enactment of this  
21       Act.

22               (2) TRANSITION.—Until such time as the Sec-  
23       retary of the Treasury issues regulations under sec-  
24       tions 4980F(e)(2) and (3) of the Internal Revenue

1 Code of 1986 (as added by the amendment made by  
2 subsection (a)), a plan shall be treated as meeting  
3 the requirements of such section if it makes a good  
4 faith effort to comply with such requirements.

5 (3) SPECIAL RULE.—The period for providing  
6 any notice required by the amendments made by this  
7 section shall not end before the date which is 3  
8 months after the date of the enactment of this Act.

## 9 **Subtitle E—Reducing Regulatory** 10 **Burdens**

### 11 **SEC. 1251. REPEAL OF THE MULTIPLE USE TEST.**

12 (a) IN GENERAL.—Paragraph (9) of section 401(m)  
13 is amended to read as follows:

14 “(9) REGULATIONS.—The Secretary shall pre-  
15 scribe such regulations as may be necessary to carry  
16 out the purposes of this subsection and subsection  
17 (k), including regulations permitting appropriate ag-  
18 gregation of plans and contributions.”.

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to years beginning after December  
21 31, 2000.

### 22 **SEC. 1252. MODIFICATION OF TIMING OF PLAN VALU-** 23 **ATIONS.**

24 (a) IN GENERAL.—Section 412(c)(9) (relating to an-  
25 nual valuation) is amended—



1                   subparagraph (A) with respect to any  
2                   plan year to which clause (i) does not  
3                   apply by reason of this clause.

4                   “(II) REGULATIONS.—Subclause  
5                   (I) shall not apply to the extent that  
6                   more frequent valuations are required  
7                   under the regulations under subpara-  
8                   graph (A).

9                   “(iii) ADJUSTMENTS.—Information  
10                  under clause (i) shall, in accordance with  
11                  regulations, be actuarially adjusted to re-  
12                  flect significant differences in participants.

13                  “(iv) ELECTION.—An election under  
14                  this subparagraph, once made, shall be ir-  
15                  revocable without the consent of the Sec-  
16                  retary.”.

17           (b) EFFECTIVE DATE.—The amendments made by  
18   this section shall apply to plan years beginning after De-  
19   cember 31, 2000.

20   **SEC. 1253. FLEXIBILITY AND NONDISCRIMINATION AND**  
21                   **LINE OF BUSINESS RULES.**

22           The Secretary of the Treasury shall, on or before De-  
23   cember 31, 2000, modify the existing regulations issued  
24   under section 401(a)(4) and section 414(r) of the Internal  
25   Revenue Code of 1986 in order to expand (to the extent

1 that the Secretary determines appropriate) the ability of  
2 a pension plan to demonstrate compliance with the non-  
3 discrimination and line of business requirements based  
4 upon the facts and circumstances surrounding the design  
5 and operation of the plan, even though the plan is unable  
6 to satisfy the mechanical tests currently used to determine  
7 compliance.

8 **SEC. 1254. SUBSTANTIAL OWNER BENEFITS IN TERMI-**  
9 **NATED PLANS.**

10 (a) MODIFICATION OF PHASE-IN OF GUARANTEE.—  
11 Section 4022(b)(5) of the Employee Retirement Income  
12 Security Act of 1974 (29 U.S.C. 1322(b)(5)) is amended  
13 to read as follows:

14 “(5)(A) For purposes of this paragraph, the term  
15 ‘majority owner’ means an individual who, at any time  
16 during the 60-month period ending on the date the deter-  
17 mination is being made—

18 “(i) owns the entire interest in an unincor-  
19 porated trade or business,

20 “(ii) in the case of a partnership, is a partner  
21 who owns, directly or indirectly, 50 percent or more  
22 of either the capital interest or the profits interest  
23 in such partnership, or

24 “(iii) in the case of a corporation, owns, directly  
25 or indirectly, 50 percent or more in value of either

1 the voting stock of that corporation or all the stock  
2 of that corporation.

3 For purposes of clause (iii), the constructive ownership  
4 rules of section 1563(e) of the Internal Revenue Code of  
5 1986 shall apply (determined without regard to section  
6 1563(e)(3)(C)).

7 “(B) In the case of a participant who is a majority  
8 owner, the amount of benefits guaranteed under this sec-  
9 tion shall equal the product of—

10 “(i) a fraction (not to exceed 1) the numerator  
11 of which is the number of years from the later of the  
12 effective date or the adoption date of the plan to the  
13 termination date, and the denominator of which is  
14 10, and

15 “(ii) the amount of benefits that would be guar-  
16 anteed under this section if the participant were not  
17 a majority owner.”.

18 (b) MODIFICATION OF ALLOCATION OF ASSETS.—

19 (1) Section 4044(a)(4)(B) of the Employee Re-  
20 tirement Income Security Act of 1974 (29 U.S.C.  
21 1344(a)(4)(B)) is amended by striking “section  
22 4022(b)(5)” and inserting “section 4022(b)(5)(B)”.

23 (2) Section 4044(b) of such Act (29 U.S.C.  
24 1344(b)) is amended—

1 (A) by striking “(5)” in paragraph (2) and  
2 inserting “(4), (5),” and

3 (B) by redesignating paragraphs (3)  
4 through (6) as paragraphs (4) through (7), re-  
5 spectively, and by inserting after paragraph (2)  
6 the following:

7 “(3) If assets available for allocation under  
8 paragraph (4) of subsection (a) are insufficient to  
9 satisfy in full the benefits of all individuals who are  
10 described in that paragraph, the assets shall be allo-  
11 cated first to benefits described in subparagraph (A)  
12 of that paragraph. Any remaining assets shall then  
13 be allocated to benefits described in subparagraph  
14 (B) of that paragraph. If assets allocated to such  
15 subparagraph (B) are insufficient to satisfy in full  
16 the benefits described in that subparagraph, the as-  
17 sets shall be allocated pro rata among individuals on  
18 the basis of the present value (as of the termination  
19 date) of their respective benefits described in that  
20 subparagraph.”.

21 (c) CONFORMING AMENDMENTS.—

22 (1) Section 4021 of the Employee Retirement  
23 Income Security Act of 1974 (29 U.S.C. 1321) is  
24 amended—



1 (A) in subsection (b)(9), by striking “as  
2 defined in section 4022(b)(6)”, and

3 (B) by adding at the end the following:

4 “(d) For purposes of subsection (b)(9), the term ‘sub-  
5 stantial owner’ means an individual who, at any time dur-  
6 ing the 60-month period ending on the date the determina-  
7 tion is being made—

8 “(1) owns the entire interest in an unincor-  
9 porated trade or business,

10 “(2) in the case of a partnership, is a partner  
11 who owns, directly or indirectly, more than 10 per-  
12 cent of either the capital interest or the profits inter-  
13 est in such partnership, or

14 “(3) in the case of a corporation, owns, directly  
15 or indirectly, more than 10 percent in value of either  
16 the voting stock of that corporation or all the stock  
17 of that corporation.

18 For purposes of paragraph (3), the constructive ownership  
19 rules of section 1563(e) of the Internal Revenue Code of  
20 1986 shall apply (determined without regard to section  
21 1563(e)(3)(C)).”.

22 (2) Section 4043(c)(7) of such Act (29 U.S.C.  
23 1343(c)(7)) is amended by striking “section 4022(b)(6)”  
24 and inserting “section 4021(d)”.

25 (d) EFFECTIVE DATES.—

1           (1) IN GENERAL.—Except as provided in para-  
2       graph (2), the amendments made by this section  
3       shall apply to plan terminations—

4           (A) under section 4041(c) of the Employee  
5       Retirement Income Security Act of 1974 (29  
6       U.S.C. 1341(c)) with respect to which notices  
7       of intent to terminate are provided under sec-  
8       tion 4041(a)(2) of such Act (29 U.S.C.  
9       1341(a)(2)) after December 31, 2000, and

10          (B) under section 4042 of such Act (29  
11       U.S.C. 1342) with respect to which proceedings  
12       are instituted by the corporation after such  
13       date.

14          (2) CONFORMING AMENDMENTS.—The amend-  
15       ments made by subsection (c) shall take effect on  
16       the date of enactment of this Act.

17   **SEC. 1255. ESOP DIVIDENDS MAY BE REINVESTED WITHOUT**  
18                   **LOSS OF DIVIDEND DEDUCTION.**

19          (a) IN GENERAL.—Section 404(k)(2)(A) (defining  
20       applicable dividends) is amended by striking “or” at the  
21       end of clause (ii), by redesignating clause (iii) as clause  
22       (iv), and by inserting after clause (ii) the following new  
23       clause:

24                   “(iii) is, at the election of such par-  
25                   ticipants or their beneficiaries—

347

1 “(I) payable as provided in clause  
2 (i) or (ii), or  
3 “(II) paid to the plan and rein-  
4 vested in qualifying employer securi-  
5 ties, or”.

6 (b) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to taxable years beginning after  
8 December 31, 2000.

9 **SEC. 1256. NOTICE AND CONSENT PERIOD REGARDING DIS-**  
10 **TRIBUTIONS.**

11 (a) EXPANSION OF PERIOD.—

12 (1) IN GENERAL.—Subparagraph (A) of section  
13 417(a)(6) is amended by striking “90-day” and in-  
14 serting “180-day”.

15 (2) MODIFICATION OF REGULATIONS.—The  
16 Secretary of the Treasury shall modify the regula-  
17 tions under sections 402(f), 411(a)(11), and 417 of  
18 the Internal Revenue Code of 1986 to substitute  
19 “180 days” for “90 days” each place it appears in  
20 Treasury Regulations sections 1.402(f)–1, 1.411(a)–  
21 11(c), and 1.417(e)–1(b).

22 (3) EFFECTIVE DATE.—The amendments made  
23 by paragraph (1) and the modifications required by  
24 paragraph (2) shall apply to years beginning after  
25 December 31, 2000.

1 (b) CONSENT REGULATION INAPPLICABLE TO CER-  
2 TAIN DISTRIBUTIONS.—

3 (1) IN GENERAL.—The Secretary of the Treas-  
4 ury shall modify the regulations under section  
5 411(a)(11) of the Internal Revenue Code of 1986 to  
6 provide that the description of a participant's right,  
7 if any, to defer receipt of a distribution shall also de-  
8 scribe the consequences of failing to defer such re-  
9 ceipt.

10 (2) EFFECTIVE DATE.—The modifications re-  
11 quired by paragraph (1) shall apply to years begin-  
12 ning after December 31, 2000.

13 **SEC. 1257. REPEAL OF TRANSITION RULE RELATING TO**  
14 **CERTAIN HIGHLY COMPENSATED EMPLOY-**  
15 **EES.**

16 (a) IN GENERAL.—Paragraph (4) of section 1114(c)  
17 of the Tax Reform Act of 1986 is hereby repealed.

18 (b) EFFECTIVE DATE.—The repeal made by sub-  
19 section (a) shall apply to plan years beginning on or after  
20 January 1, 2000.

21 **SEC. 1258. EMPLOYEES OF TAX-EXEMPT ENTITIES.**

22 (a) IN GENERAL.—The Secretary of the Treasury  
23 shall modify Treasury Regulations section 1.410(b)–6(g)  
24 to provide that employees of an organization described in  
25 section 403(b)(1)(A)(i) of the Internal Revenue Code of

1 1986 who are eligible to make contributions under section  
2 403(b) pursuant to a salary reduction agreement may be  
3 treated as excludable with respect to a plan under section  
4 401(k), or section 401(m) of such Code that is provided  
5 under the same general arrangement as a plan under such  
6 section 401(k), if—

7 (1) no employee of an organization described in  
8 section 403(b)(1)(A)(i) of such Code is eligible to  
9 participate in such section 401(k) plan or section  
10 401(m) plan, and

11 (2) 95 percent of the employees who are not  
12 employees of an organization described in section  
13 403(b)(1)(A)(i) of such Code are eligible to partici-  
14 pate in such section 401(k) plan or section 401(m)  
15 plan.

16 (b) EFFECTIVE DATE.—The modification required by  
17 subsection (a) shall apply as of the same date set forth  
18 in section 1426(b) of the Small Business Job Protection  
19 Act of 1996.

20 **SEC. 1259. CLARIFICATION OF TREATMENT OF EMPLOYER-**  
21 **PROVIDED RETIREMENT ADVICE.**

22 (a) IN GENERAL.—Subsection (a) of section 132 (re-  
23 lating to exclusion from gross income) is amended by  
24 striking “or” at the end of paragraph (5), by striking the

1 period at the end of paragraph (6) and inserting “, or”,  
2 and by adding at the end the following new paragraph:  
3 “(7) qualified retirement planning services.”.

4 (b) QUALIFIED RETIREMENT PLANNING SERVICES  
5 DEFINED.—Section 132 is amended by redesignating sub-  
6 section (m) as subsection (n) and by inserting after sub-  
7 section (l) the following:

8 “(m) QUALIFIED RETIREMENT PLANNING SERV-  
9 ICES.—

10 “(1) IN GENERAL.—For purposes of this sec-  
11 tion, the term ‘qualified retirement planning serv-  
12 ices’ means any retirement planning service provided  
13 to an employee and his spouse by an employer main-  
14 taining a retirement plan.

15 “(2) NONDISCRIMINATION RULE.—Subsection  
16 (a)(7) shall apply in the case of highly compensated  
17 employees only if such services are available on sub-  
18 stantially the same terms to each member of the  
19 group of employees normally provided education and  
20 information regarding the employer’s pension plan.”.

21 (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to years beginning after December  
23 31, 2000.

1 **SEC. 1260. PROVISIONS RELATING TO PLAN AMENDMENTS.**

2 (a) IN GENERAL.—If this section applies to any plan  
3 or contract amendment—

4 (1) such plan or contract shall be treated as  
5 being operated in accordance with the terms of the  
6 plan during the period described in subsection  
7 (b)(2)(A), and

8 (2) such plan shall not fail to meet the require-  
9 ments of section 411(d)(6) of the Internal Revenue  
10 Code of 1986 by reason of such amendment.

11 (b) AMENDMENTS TO WHICH SECTION APPLIES.—

12 (1) IN GENERAL.—This section shall apply to  
13 any amendment to any plan or annuity contract  
14 which is made—

15 (A) pursuant to any amendment made by  
16 this Act, or pursuant to any regulation issued  
17 under this Act, and

18 (B) on or before the last day of the first  
19 plan year beginning on or after January 1,  
20 2003.

21 In the case of a government plan (as defined in sec-  
22 tion 414(d) of the Internal Revenue Code of 1986,  
23 this paragraph shall be applied by substituting  
24 “2005” for “2003”.

25 (2) CONDITIONS.—This section shall not apply  
26 to any amendment unless—

1 (A) during the period—

2 (i) beginning on the date the legisla-  
3 tive or regulatory amendment described in  
4 paragraph (1)(A) takes effect (or in the  
5 case of a plan or contract amendment not  
6 required by such legislative or regulatory  
7 amendment, the effective date specified by  
8 the plan), and

9 (ii) ending on the date described in  
10 paragraph (1)(B) (or, if earlier, the date  
11 the plan or contract amendment is adopt-  
12 ed),

13 the plan or contract is operated as if such plan  
14 or contract amendment were in effect, and

15 (B) such plan or contract amendment ap-  
16 plies retroactively for such period.

17 **SEC. 1261. MODEL PLANS FOR SMALL BUSINESSES.**

18 (a) IN GENERAL.—Not later than December 31,  
19 2000, the Secretary of the Treasury is directed to issue  
20 at least one model defined contribution plan and at least  
21 one model defined benefit plan that fit the needs of small  
22 businesses and that shall be treated as meeting the re-  
23 quirements of section 401(a) of the Internal Revenue Code  
24 of 1986 with respect to the form of the plan. To the extent  
25 that the requirements of section 401(a) of such Code are



1 modified after the issuance of such plans, the Secretary  
2 of the Treasury shall, in a timely manner, issue model  
3 amendments that, if adopted in a timely manner by an  
4 employer that has a model plan in effect, shall cause such  
5 model plan to be treated as meeting the requirements of  
6 section 401(a) of such Code, as modified, with respect to  
7 the form of the plan.

8 (b) PROTOTYPE PLAN ALTERNATIVE.—The Sec-  
9 retary of the Treasury may satisfy the requirements of  
10 subsection (a) through the enhancement and simplification  
11 of the Secretary's programs for prototype plans in such  
12 a manner as to achieve the purposes of subsection (a).

13 **SEC. 1262. SIMPLIFIED ANNUAL FILING REQUIREMENT FOR**  
14 **PLANS WITH FEWER THAN 25 EMPLOYEES.**

15 (a) IN GENERAL.—In the case of a retirement plan  
16 which covers less than 25 employees on the 1st day of  
17 the plan year and meets the requirements described in  
18 subsection (b), the Secretary of the Treasury shall provide  
19 for the filing of a simplified annual return that is substan-  
20 tially similar to the annual return required to be filed by  
21 a one-participant retirement plan.

22 (b) REQUIREMENTS.—A plan meets the requirements  
23 of this subsection if it—

24 (1) meets the minimum coverage requirements  
25 of section 410(b) of the Internal Revenue Code of

1       1986 without being combined with any other plan of  
2       the business that covers the employees of the busi-  
3       ness,

4           (2) does not cover a business that is a member  
5       of an affiliated service group, a controlled group of  
6       corporations, or a group of businesses under com-  
7       mon control, and

8           (3) does not cover a business that leases em-  
9       ployees.

10   **SEC. 1263. INTERMEDIATE SANCTIONS FOR INADVERTENT**  
11                   **FAILURES.**

12       The Secretary of the Treasury shall continue to up-  
13       date and improve the Employee Plans Compliance Resolu-  
14       tion System (or any successor program) giving special at-  
15       tention to—

16           (1) increasing the awareness and knowledge of  
17       small employers concerning the availability and use  
18       of the program,

19           (2) taking into account special concerns and  
20       circumstances that small employers face with respect  
21       to compliance and correction of compliance failures,

22           (3) extending the duration of the self-correction  
23       period under the Administrative Policy Regarding  
24       Self-Correction for significant compliance failures,

1           (4) expanding the availability to correct insig-  
2           nificant compliance failures under the Administra-  
3           tive Policy Regarding Self-Correction during audit,  
4           and

5           (5) assuring that any tax, penalty, or sanction  
6           that is imposed by reason of a compliance failure is  
7           not excessive and bears a reasonable relationship to  
8           the nature, extent, and severity of the failure.

9           **TITLE XIII—MISCELLANEOUS**  
10           **PROVISIONS**  
11           **Subtitle A—Provisions Primarily**  
12           **Affecting Individuals**

13           **SEC. 1301. EXCLUSION FOR FOSTER CARE PAYMENTS TO**  
14                           **APPLY TO PAYMENTS BY QUALIFIED PLACE-**  
15                           **MENT AGENCIES.**

16           (a) IN GENERAL.—The matter preceding subpara-  
17           graph (B) of section 131(b)(1) (defining qualified foster  
18           care payment) is amended to read as follows:

19                       “(1) IN GENERAL.—The term ‘qualified foster  
20           care payment’ means any payment made pursuant to  
21           a foster care program of a State or political subdivi-  
22           sion thereof—

23                               “(A) which is paid by—

24                                       “(i) a State or political subdivision  
25                                       thereof, or

1                   “(ii) a qualified foster care placement  
2                   agency, and”.

3           (b) QUALIFIED FOSTER INDIVIDUALS TO INCLUDE  
4 INDIVIDUALS PLACED BY QUALIFIED PLACEMENT AGEN-  
5 CIES.—Subparagraph (B) of section 131(b)(2) (defining  
6 qualified foster individual) is amended to read as follows:

7                   “(B) a qualified foster care placement  
8                   agency.”

9           (c) QUALIFIED FOSTER CARE PLACEMENT AGENCY  
10 DEFINED.—Subsection (b) of section 131 is amended by  
11 redesignating paragraph (3) as paragraph (4) and by in-  
12 serting after paragraph (2) the following new paragraph:

13                   “(3) QUALIFIED FOSTER CARE PLACEMENT  
14 AGENCY.—The term ‘qualified foster care placement  
15 agency’ means any placement agency which is li-  
16 censed or certified by—

17                   “(A) a State or political subdivision there-  
18                   of, or

19                   “(B) an entity designated by a State or  
20                   political subdivision thereof,

21                   for the foster care program of such State or political  
22                   subdivision to make foster care payments to pro-  
23                   viders of foster care.”

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to taxable years beginning after  
3 December 31, 1999.

4 **SEC. 1302. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
5 **VOLUNTEERS EXCLUDED FROM GROSS IN-**  
6 **COME.**

7 (A) IN GENERAL.—Part III of subchapter B of chap-  
8 ter 1 is amended by inserting after section 138 the fol-  
9 lowing new section:

10 **“SEC. 138A. MILEAGE REIMBURSEMENTS TO CHARITABLE**  
11 **VOLUNTEERS.**

12 “(a) IN GENERAL.—Gross income of an individual  
13 does not include amounts received, from an organization  
14 described in section 170(c), as reimbursement of operating  
15 expenses with respect to use of a passenger automobile  
16 for the benefit of such organization. The preceding sen-  
17 tence shall apply only to the extent that such reimburse-  
18 ment would be deductible under section 274(d) (deter-  
19 mined by applying the standard business mileage rate es-  
20 tablished pursuant to section 274(d)) if the organization  
21 were not so described and such individual were an em-  
22 ployee of such organization.

23 “(b) NO DOUBLE BENEFIT.—Subsection (a) shall  
24 not apply with respect to any expenses if the individual

1 claims a deduction or credit for such expenses under any  
2 other provision of this title.

3 “(c) EXEMPTION FROM REPORTING REQUIRE-  
4 MENTS.—Section 6041 shall not apply with respect to re-  
5 imbursements excluded from income under subsection  
6 (a).”

7 (b) CLERICAL AMENDMENT.—The table of sections  
8 for part III of subchapter B of chapter 1 is amended by  
9 inserting after the item relating to section 138 the fol-  
10 lowing new items:

“Sec. 138A. Reimbursement for use of passenger automobile for  
charity.”

11 (c) EFFECTIVE DATE.—The amendments made by  
12 this section shall apply to taxable years beginning after  
13 December 31, 1999.

14 **SEC. 1303. W-2 TO INCLUDE EMPLOYER SOCIAL SECURITY**  
15 **TAXES.**

16 (a) IN GENERAL.—Subsection (a) of section 6051  
17 (relating to receipts for employees) is amended by striking  
18 “and” at the end of paragraph (10), by striking the period  
19 at the end of paragraph (11) and inserting a comma, and  
20 by inserting after paragraph (11) the following new para-  
21 graphs:

22 “(12) the amount of tax imposed by section  
23 3111(a), and

1           “(13) the amount of tax imposed by section  
2       3111(b).”

3       (b) EFFECTIVE DATE.—The amendment made by  
4 this section shall apply with respect to remuneration paid  
5 after December 31, 1999.

6       **Subtitle B—Provisions Primarily**  
7           **Affecting Businesses**

8       **SEC. 1311. DISTRIBUTIONS FROM PUBLICLY TRADED PART-**  
9           **NERSHIPS TREATED AS QUALIFYING INCOME**  
10           **OF REGULATED INVESTMENT COMPANIES.**

11       (a) IN GENERAL.—Paragraph (2) of section 851(b)  
12 (defining regulated investment company) is amended by  
13 inserting “income derived from an interest in a publicly  
14 traded partnership (as defined in section 7704(b)),” after  
15 “dividends, interest,”.

16       (b) SOURCE FLOW-THROUGH RULE NOT TO  
17 APPLY.—The last sentence of section 851(b) is amended  
18 by inserting “(other than a publicly traded partnership (as  
19 defined in section 7704(b)))” after “derived from a part-  
20 nership”.

21       (c) EFFECTIVE DATE.—The amendments made by  
22 this section shall apply to taxable years beginning after  
23 December 31, 2000.

1 **SEC. 1312. SPECIAL PASSIVE ACTIVITY RULE FOR PUB-**  
2 **LICLY TRADED PARTNERSHIPS TO APPLY TO**  
3 **REGULATED INVESTMENT COMPANIES.**

4 (a) IN GENERAL.—Subsection (k) of section 469 (re-  
5 lating to separate application of section in case of publicly  
6 traded partnerships) is amended by adding at the end the  
7 following new paragraph:

8 “(4) APPLICATION TO REGULATED INVEST-  
9 MENT COMPANIES.—For purposes of this section, a  
10 regulated investment company (as defined in section  
11 851) holding an interest in a publicly traded part-  
12 nership shall be treated as a taxpayer described in  
13 subsection (a)(2) with respect to items attributable  
14 to such interest.”.

15 (b) EFFECTIVE DATE.—The amendment made by  
16 this section shall apply to taxable years beginning after  
17 December 31, 2000.

18 **SEC. 1313. LARGE ELECTRIC TRUCKS, VANS, AND BUSES EL-**  
19 **IGIBLE FOR DEDUCTION FOR CLEAN-FUEL**  
20 **VEHICLES IN LIEU OF CREDIT.**

21 (a) IN GENERAL.—Paragraph (1) of section 30(c)  
22 (relating to credit for qualified electric vehicles) is amend-  
23 ed by adding at the end the following new flush sentence:

24 “Such term shall not include any vehicle described  
25 in subclause (I) or (II) of section  
26 179A(b)(1)(A)(iii).”



1 (b) EFFECTIVE DATE.—The amendment made by  
2 this section shall apply to property placed in service after  
3 December 31, 1999.

4 **SEC. 1314. MODIFICATIONS TO SPECIAL RULES FOR NU-**  
5 **CLEAR DECOMMISSIONING COSTS.**

6 (a) REPEAL OF LIMITATION ON DEPOSITS INTO  
7 FUND BASED ON COST OF SERVICE.—Subsection (b) of  
8 section 468A is amended to read as follows:

9 “(b) LIMITATION ON AMOUNTS PAID INTO FUND.—  
10 The amount which a taxpayer may pay into the Fund for  
11 any taxable year shall not exceed the ruling amount appli-  
12 cable to such taxable year.”

13 (b) CLARIFICATION OF TREATMENT OF FUND  
14 TRANSFERS.—Subsection (e) of section 468A is amended  
15 by adding at the end the following new paragraph:

16 “(8) TREATMENT OF FUND TRANSFERS.—If, in  
17 connection with the transfer of the taxpayer’s inter-  
18 est in a nuclear powerplant, the taxpayer transfers  
19 the Fund with respect to such powerplant to the  
20 transferee of such interest and the transferee elects  
21 to continue the application of this section to such  
22 Fund—

23 “(A) the transfer of such Fund shall not  
24 cause such Fund to be disqualified from the ap-  
25 plication of this section, and

1                   “(B) no amount shall be treated as distrib-  
2                   uted from such Fund, or be includible in gross  
3                   income, by reason of such transfer.”

4           (c) TRANSFERS OF BALANCES IN NONQUALIFIED  
5 FUNDS.—Section 468A is amended by redesignating sub-  
6 sections (f) and (g) as subsections (g) and (h), respec-  
7 tively, and by inserting after subsection (e) the following  
8 new subsection:

9           “(f) TRANSFERS OF BALANCES IN NONQUALIFIED  
10 FUNDS INTO QUALIFIED FUNDS.—

11           “(1) IN GENERAL.—Notwithstanding subsection  
12           (b), any taxpayer maintaining a Fund to which this  
13           section applies with respect to a nuclear powerplant  
14           may transfer into such Fund amounts held in any  
15           nonqualified fund of such taxpayer with respect to  
16           such powerplant.

17           “(2) MAXIMUM AMOUNT PERMITTED TO BE  
18           TRANSFERRED.—The amount permitted to be trans-  
19           ferred under paragraph (1) shall not exceed the  
20           balance in the nonqualified fund as of December 31,  
21           1998.

22           “(3) DEDUCTION FOR AMOUNTS TRANS-  
23           FERRED.—

24           “(A) IN GENERAL.—The deduction allowed  
25           by subsection (a) for any transfer permitted by

1           this subsection shall be allowed ratably over the  
2           remaining estimated useful life (within the  
3           meaning of subsection (d)(2)(A)) of the nuclear  
4           powerplant, beginning with the later of the tax-  
5           able year during which the transfer is made or  
6           the taxpayer's first taxable year beginning after  
7           December 31, 2001.

8           “(B) DENIAL OF DEDUCTION FOR PRE-  
9           VIOUSLY DEDUCTED AMOUNTS.—No deduction  
10          shall be allowed for any transfer under this sub-  
11          section of an amount for which a deduction was  
12          allowed when such amount was paid into the  
13          nonqualified fund. For purposes of the pre-  
14          ceding sentence, a ratable portion of each trans-  
15          fer shall be treated as being from previously de-  
16          ducted amounts to the extent thereof.

17          “(C) TRANSFERS OF QUALIFIED FUNDS.—  
18          If—

19                 “(i) any transfer permitted by this  
20                 subsection is made to any Fund to which  
21                 this section applies, and

22                 “(ii) such Fund is transferred there-  
23                 after,

24                 any deduction under this subsection for taxable  
25                 years ending after the date that such Fund is

1 transferred shall be allowed to the transferee  
2 and not to the transferor. The preceding sen-  
3 tence shall not apply if the transferor is an or-  
4 ganization exempt from tax imposed by this  
5 chapter.

6 “(4) NEW RULING AMOUNT REQUIRED.—Para-  
7 graph (1) shall not apply to any transfer unless the  
8 taxpayer requests from the Secretary a new schedule  
9 of ruling amounts in connection with such transfer.

10 “(5) NONQUALIFIED FUND.—For purposes of  
11 this subsection, the term ‘nonqualified fund’ means,  
12 with respect to any nuclear powerplant, any fund in  
13 which amounts are irrevocably set aside pursuant to  
14 the requirements of any State or Federal agency ex-  
15 clusively for the purpose of funding the decommis-  
16 sioning of such powerplant.

17 “(6) NO BASIS IN QUALIFIED FUNDS.—Not-  
18 withstanding any other provision of law, the basis of  
19 any Fund to which this section applies shall not be  
20 increased by reason of any transfer permitted by  
21 this subsection.”

22 (d) EFFECTIVE DATE.—The amendments made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 1999.

1   **SEC. 1315. CONSOLIDATION OF LIFE INSURANCE COMPA-**  
2                   **NIES WITH OTHER CORPORATIONS.**

3           (a) IN GENERAL.—Section 1504(b) (defining includ-  
4   ible corporation) is amended by striking paragraph (2).

5           (b) CONFORMING AMENDMENTS.—

6               (1) Subsection (c) of section 1503 is amended  
7           by striking paragraph (2) (relating to losses of re-  
8           cent nonlife affiliates).

9               (2) Section 1504 is amended by striking sub-  
10          section (c) and by redesignating subsections (d), (e),  
11          and (f) as subsections (c), (d), and (e), respectively.

12              (3) Section 1503(c)(1) (relating to special rule  
13          for application of certain losses against income of in-  
14          surance companies taxed under section 801) is  
15          amended by striking “an election under section  
16          1504(c)(2) is in effect for the taxable year and”.

17           (c) EFFECTIVE DATE.—The amendments made by  
18   this section shall apply to taxable years beginning after  
19   December 31, 2004.

20           (d) NO CARRYBACK BEFORE JANUARY 1, 2005.—To  
21   the extent that a consolidated net operating loss is allowed  
22   or increased by reason of the amendments made by this  
23   section, such loss may not be carried back to a taxable  
24   year beginning before January 1, 2005.

1 (e) NONTERMINATION OF GROUP.—No affiliated  
2 group shall terminate solely as a result of the amendments  
3 made by this section.

4 (f) WAIVER OF 5-YEAR WAITING PERIOD.—Under  
5 regulations prescribed by the Secretary of the Treasury  
6 or his delegate, an automatic waiver from the 5-year wait-  
7 ing period for reconsolidation provided in section  
8 1504(a)(3) of such Code shall be granted to any corpora-  
9 tion which was previously an includible corporation but  
10 was subsequently deemed a nonincludible corporation as  
11 a result of becoming a subsidiary of a corporation which  
12 was not an includible corporation solely by operation of  
13 section 1504(c)(2) of such Code (as in effect on the day  
14 before the date of enactment of this Act).

15 **Subtitle C—Provisions Relating to**  
16 **Excise Taxes**

17 **SEC. 1321. CONSOLIDATION OF HAZARDOUS SUBSTANCE**  
18 **SUPERFUND AND LEAKING UNDERGROUND**  
19 **STORAGE TANK TRUST FUND.**

20 (a) IN GENERAL.—Subchapter A of chapter 98 (re-  
21 lating to trust fund code) is amended by striking sections  
22 9507 and 9508 and inserting the following new section:

23 **“SEC. 9507. ENVIRONMENTAL REMEDIATION TRUST FUND.**

24 **“(a) CREATION OF TRUST FUND.—**There is estab-  
25 **lished in the Treasury of the United States a trust fund**

1 to be known as the ‘Environmental Remediation Trust  
2 Fund’ consisting of such amounts as may be—

3 “(1) appropriated to the Environmental Reme-  
4 diation Trust Fund as provided in this section,

5 “(2) appropriated to the Environmental Reme-  
6 diation Trust Fund pursuant to section 517(b) of  
7 the Superfund Revenue Act of 1986, or

8 “(3) credited to the Environmental Remediation  
9 Trust Fund as provided in section 9602(b).

10 “(b) TRANSFERS TO ENVIRONMENTAL REMEDIATION  
11 TRUST FUND.—

12 “(1) IN GENERAL.—There are hereby appro-  
13 priated to the Environmental Remediation Trust  
14 Fund amounts equivalent to—

15 “(A) the taxes received in the Treasury  
16 under—

17 “(i) section 59A, 4611, 4661, or 4671  
18 (relating to environmental taxes),

19 “(ii) section 4041(d) (relating to addi-  
20 tional taxes on motor fuels),

21 “(iii) section 4081 (relating to tax on  
22 gasoline, diesel fuel, and kerosene) to the  
23 extent attributable to the Environmental  
24 Remediation Trust Fund financing rate  
25 under such section,

1                   “(iv) section 4091 (relating to tax on  
2                   aviation fuel) to the extent attributable to  
3                   the Environmental Remediation Trust  
4                   Fund financing rate under such section,  
5                   and

6                   “(v) section 4042 (relating to tax on  
7                   fuel used in commercial transportation on  
8                   inland waterways) to the extent attrib-  
9                   utable to the Environmental Remediation  
10                  Trust Fund financing rate under such sec-  
11                  tion,

12                  “(B) amounts recovered on behalf of the  
13                  Environmental Remediation Trust Fund under  
14                  the Comprehensive Environmental Response,  
15                  Compensation, and Liability Act of 1980 (here-  
16                  inafter in this section referred to as  
17                  ‘CERCLA’),

18                  “(C) all moneys recovered or collected  
19                  under section 311(b)(6)(B) of the Clean Water  
20                  Act,

21                  “(D) penalties assessed under title I of  
22                  CERCLA,

23                  “(E) punitive damages under section  
24                  107(c)(3) of CERCLA, and



1           “(F) amounts received in the Treasury and  
2           collected under section 9003(h)(6) of the Solid  
3           Waste Disposal Act.

4           “(2) LIMITATION ON TRANSFERS.—

5           “(A) IN GENERAL.—Except as provided in  
6           subparagraph (B), no amount may be appro-  
7           priated or credited to the Environmental Reme-  
8           diation Trust Fund on and after the date of  
9           any expenditure from any such Trust Fund  
10          which is not permitted by this section. The de-  
11          termination of whether an expenditure is so  
12          permitted shall be made without regard to—

13           “(i) any provision of law which is not  
14           contained or referenced in this title or in  
15           a revenue Act, and

16           “(ii) whether such provision of law is  
17           a subsequently enacted provision or di-  
18           rectly or indirectly seeks to waive the ap-  
19           plication of this paragraph.

20           “(B) EXCEPTION FOR PRIOR OBLIGA-  
21           TIONS.—Subparagraph (A) shall not apply to  
22           any expenditure to liquidate any contract en-  
23           tered into (or for any amount otherwise obli-  
24           gated) in accordance with the provisions of this  
25           section.”

1       “(c) EXPENDITURES FROM ENVIRONMENTAL REME-  
2 DIATION TRUST FUND.—

3           “(1) IN GENERAL.—Amounts in the Environ-  
4 mental Remediation Trust Fund shall be available,  
5 as provided in appropriation Acts, only for purposes  
6 of making expenditures—

7           “(A) to carry out the purposes of—

8           “(i) paragraphs (1), (2), (5), and (6)  
9 of section 111(a) of CERCLA as in effect  
10 on July 12, 1999,

11           “(ii) section 111(c) of CERCLA (as  
12 so in effect), other than paragraphs (1)  
13 and (2) thereof, and

14           “(iii) section 111(m) of CERCLA (as  
15 so in effect), or

16           “(B) to carry out section 9003(h) of the  
17 Solid Waste Disposal Act as in effect on July  
18 12, 1999.

19       “(2) EXCEPTION FOR CERTAIN TRANSFERS,  
20 ETC., OF HAZARDOUS SUBSTANCES.—No amount in  
21 the Environmental Remediation Trust Fund or de-  
22 rived from the Environmental Remediation Trust  
23 Fund shall be available or used for the transfer or  
24 disposal of hazardous waste carried out pursuant to  
25 a cooperative agreement between the Administrator

1 of the Environmental Protection Agency and a State  
2 if the following conditions apply—

3 “(A) the transfer or disposal, if made on  
4 December 13, 1985, would not comply with a  
5 State or local requirement,

6 “(B) the transfer is to a facility for which  
7 a final permit under section 3005(a) of the  
8 Solid Waste Disposal Act was issued after Jan-  
9 uary 1, 1983, and before November 1, 1984,  
10 and

11 “(C) the transfer is from a facility identi-  
12 fied as the McColl Site in Fullerton, California.

13 “(3) TRANSFERS FROM TRUST FUND FOR CER-  
14 TAIN REPAYMENTS AND CREDITS.—

15 “(A) IN GENERAL.—The Secretary shall  
16 pay from time to time from the Environmental  
17 Remediation Trust Fund into the general fund  
18 of the Treasury amounts equivalent to—

19 “(i) amounts paid under—

20 “(I) section 6420 (relating to  
21 amounts paid in respect of gasoline  
22 used on farms),

23 “(II) section 6421 (relating to  
24 amounts paid in respect of gasoline

1                   used for certain nonhighway purposes  
2                   or by local transit systems), and  
3                   “(III) section 6427 (relating to  
4                   fuels not used for taxable purposes),  
5                   and

6                   “(ii) credits allowed under section 34,  
7                   with respect to the taxes imposed by section  
8                   4041(d) or by sections 4081 and 4091 (to the  
9                   extent attributable to the Leaking Underground  
10                  Storage Tank Trust Fund financing rate or the  
11                  Environmental Remediation Trust Fund financ-  
12                  ing rate under such sections).

13                  “(B) TRANSFERS BASED ON ESTIMATES.—  
14                  Transfers under subparagraph (A) shall be  
15                  made on the basis of estimates by the Sec-  
16                  retary, and proper adjustments shall be made  
17                  in amounts subsequently transferred to the ex-  
18                  tent prior estimates were in excess of or less  
19                  than the amounts required to be transferred.

20                  “(d) LIABILITY OF UNITED STATES LIMITED TO  
21                  AMOUNT IN TRUST FUND.—

22                  “(1) GENERAL RULE.—Any claim filed against  
23                  the Environmental Remediation Trust Fund may be  
24                  paid only out of the Environmental Remediation  
25                  Trust Fund.

1           “(2) COORDINATION WITH OTHER PROVI-  
2           SIONS.—Nothing in CERCLA or the Superfund  
3           Amendments and Reauthorization Act of 1986 (or in  
4           any amendment made by either of such Acts) shall  
5           authorize the payment by the United States Govern-  
6           ment of any amount with respect to any such claim  
7           out of any source other than the Environmental Re-  
8           mediation Trust Fund.

9           “(3) ORDER IN WHICH UNPAID CLAIMS ARE TO  
10          BE PAID.—If at any time the Environmental Reme-  
11          diation Trust Fund has insufficient funds to pay all  
12          of the claims payable out of the Environmental Re-  
13          mediation Trust Fund at such time, such claims  
14          shall, to the extent permitted under paragraph (1),  
15          be paid in full in the order in which they were finally  
16          determined.”

17          (b) CONFORMING AMENDMENTS.—

18               (1) Subsections (c) and (d) of section 4611 are  
19               each amended by striking “Hazardous Substance  
20               Superfund” each place it appears and inserting “En-  
21               vironmental Remediation Trust Fund”.

22               (2) Subsection (c) of section 4661 is amended  
23               by striking “Hazardous Substance Superfund” and  
24               inserting “Environmental Remediation Trust Fund”.

1           (3) Sections 4041(d), 4042(b), 4081(a)(2)(B),  
2           4081(d)(3), 4091(b), 4092(b), 6421(f), and 6427(l)  
3           are each amended by striking “Leaking Under-  
4           ground Storage Tank” each place it appears (other  
5           than the headings) and inserting “Environmental  
6           Remediation”.

7           (4) The heading for subsection (d) of section  
8           4041 is amended by striking “LEAKING UNDER-  
9           GROUND STORAGE TANK” and inserting “ENVIRON-  
10          MENTAL REMEDIATION”.

11          (5) The headings for subsections (a)(2)(B) and  
12          (d)(3) of section 4081 and section 4091(b)(2) are  
13          each amended by striking “LEAKING UNDERGROUND  
14          STORAGE TANK” and inserting “ENVIRONMENTAL  
15          REMEDATION”.

16          (c) EFFECTIVE DATE.—The amendments made by  
17          this section shall take effect on October 1, 1999.

18          (d) ENVIRONMENTAL REMEDIATION TRUST FUND  
19          TREATED AS CONTINUATION OF OLD TRUST FUNDS.—  
20          The Environmental Remediation Trust Fund established  
21          by the amendments made by this section shall be treated  
22          for all purposes of law as a continuation of both the Haz-  
23          ardous Substance Superfund and the Leaking Under-  
24          ground Storage Tank Trust Fund. Any reference in any  
25          law to the Hazardous Substance Superfund or the Leak-

1 ing Underground Storage Tank Trust Fund shall be  
2 deemed to include (wherever appropriate) a reference to  
3 the Environmental Remediation Trust Fund established  
4 by such amendments.

5 **SEC. 1322. REPEAL OF CERTAIN MOTOR FUEL EXCISE**  
6 **TAXES ON FUEL USED BY RAILROADS AND ON**  
7 **INLAND WATERWAY TRANSPORTATION.**

8 (a) REPEAL OF LEAKING UNDERGROUND STORAGE  
9 TANK TRUST FUND TAXES ON FUEL USED IN TRAINS.—

10 (1) IN GENERAL.—Paragraph (1) of section  
11 4041(d) is amended by adding at the end the fol-  
12 lowing new sentence: “The preceding sentence shall  
13 not apply to any sale for use, or use, of fuel in a  
14 diesel-powered train.”

15 (2) CONFORMING AMENDMENTS.—

16 (A) Paragraph (3) of section 6421(f) is  
17 amended by striking “with respect to—” and  
18 all that follows through “so much of” and in-  
19 serting “with respect to so much of”.

20 (B) Paragraph (3) of section 6427(l) is  
21 amended by striking “with respect to—” and  
22 all that follows through “so much of” and in-  
23 serting “with respect to so much of”.

1 (b) REPEAL OF 4.3-CENT MOTOR FUEL EXCISE  
2 TAXES ON RAILROADS AND INLAND WATERWAY TRANS-  
3 PORTATION WHICH REMAIN IN GENERAL FUND.—

4 (1) TAXES ON TRAINS.—

5 (A) IN GENERAL.—Subparagraph (A) of  
6 section 4041(a)(1) is amended by striking “or  
7 a diesel-powered train” each place it appears  
8 and by striking “or train”.

9 (B) CONFORMING AMENDMENTS.—

10 (i) Subparagraph (C) of section  
11 4041(a)(1) is amended by striking clause  
12 (ii) and by redesignating clause (iii) as  
13 clause (ii).

14 (ii) Subparagraph (C) of section  
15 4041(b)(1) is amended by striking all that  
16 follows “section 6421(e)(2)” and inserting  
17 a period.

18 (iii) Paragraph (3) of section 4083(a)  
19 is amended by striking “or a diesel-pow-  
20 ered train”.

21 (iv) Section 6421(f) is amended by  
22 striking paragraph (3).

23 (v) Section 6427(l) is amended by  
24 striking paragraph (3).

25 (2) FUEL USED ON INLAND WATERWAYS.—



1 (A) IN GENERAL.—Paragraph (1) of sec-  
2 tion 4042(b) is amended by adding “and” at  
3 the end of subparagraph (A), by striking “,  
4 and” at the end of subparagraph (B) and in-  
5 serting a period, and by striking subparagraph  
6 (C).

7 (B) CONFORMING AMENDMENT.—Para-  
8 graph (2) of section 4042(b) is amended by  
9 striking subparagraph (C).

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this subsection shall take effect on October 1, 1999 (Octo-  
12 ber 1, 2003, in the case of the amendments made by sub-  
13 section (b)), but shall not take effect if section 1321 does  
14 not take effect.

15 **SEC. 1323. REPEAL OF EXCISE TAX ON FISHING TACKLE**  
16 **BOXES.**

17 (a) IN GENERAL.—Paragraph (6) of section 4162(a)  
18 (defining sport fishing equipment) is amended by striking  
19 subparagraph (C) and by redesignating subparagraphs  
20 (D) through (J) as subparagraphs (C) through (I), respec-  
21 tively.

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to articles sold by the manufac-  
24 turer, producer, or importer more than 30 days after the  
25 date of the enactment of this Act.

1           **Subtitle D—Other Provisions**

2   **SEC. 1331. INCREASE IN VOLUME CAP ON PRIVATE ACTIV-**  
3                   **ITY BONDS.**

4           (a) IN GENERAL.—Subsection (d) of section 146 (re-  
5   lating to volume cap) is amended by striking paragraph  
6   (2), by redesignating paragraphs (3) and (4) as para-  
7   graphs (2) and (3), respectively, and by striking para-  
8   graph (1) and inserting the following new paragraph:

9                   “(1) IN GENERAL.—The State ceiling applicable  
10   to any State for any calendar year shall be the  
11   greater of—

12                           “(A) an amount equal to \$75 multiplied by  
13                   the State population, or

14                           “(B) \$225,000,000.

15   Subparagraph (B) shall not apply to any possession  
16   of the United States.”.

17   (b) CONFORMING AMENDMENT.—Sections 25(f)(3)  
18   and 42(h)(3)(E)(iii) are each amended by striking “sec-  
19   tion 146(d)(3)(C)” and inserting “section 146(d)(2)(C)”.

20   (c) EFFECTIVE DATE.—The amendments made by  
21   this section shall apply to calendar years after 1999.

22   **SEC. 1332. TAX TREATMENT OF ALASKA NATIVE SETTLE-**  
23                   **MENT TRUSTS.**

24   (a) IN GENERAL.—Subpart A of part I of subchapter  
25   J of chapter 1 (relating to general rules for taxation of

1 trusts and estates) is amended by adding at the end the  
2 following new section:

3 **“SEC. 646. ELECTING ALASKA NATIVE SETTLEMENT**  
4 **TRUSTS.**

5 “(a) IN GENERAL.—Except as otherwise provided in  
6 this section, the provisions of this subchapter and section  
7 1(e) shall apply to all Settlement Trusts.

8 “(b) BENEFICIARIES OF ELECTING TRUST NOT  
9 TAXED ON CONTRIBUTIONS.—

10 “(1) IN GENERAL.—In the case of a Settlement  
11 Trust for which an election under paragraph (2) is  
12 in effect for any taxable year, no amount shall be in-  
13 cludible in the gross income of a beneficiary of the  
14 Settlement Trust by reason of a contribution to the  
15 Settlement Trust made during such taxable year.

16 “(2) ONE-TIME ELECTION.—

17 “(A) IN GENERAL.—A Settlement Trust  
18 may elect to have the provisions of this section  
19 apply to the trust and its beneficiaries.

20 “(B) TIME AND METHOD OF ELECTION.—

21 An election under subparagraph (A) shall be  
22 made—

23 “(i) before the due date (including ex-  
24 tensions) for filing the Settlement Trust’s  
25 return of tax for the 1st taxable year of

1 the Settlement Trust ending after Decem-  
2 ber 31, 1999, and

3 “(ii) by attaching to such return of  
4 tax a statement specifically providing for  
5 such election.

6 “(C) PERIOD ELECTION IN EFFECT.—Ex-  
7 cept as provided in paragraph (3), an election  
8 under subparagraph (A)—

9 “(i) shall apply to the 1st taxable year  
10 described in subparagraph (B)(i) and all  
11 subsequent taxable years, and

12 “(ii) may not be revoked once it is  
13 made.

14 “(c) SPECIAL RULES WHERE TRANSFER RESTRIC-  
15 TIONS MODIFIED.—

16 “(1) TRANSFER OF BENEFICIAL INTERESTS.—

17 If, at any time, a beneficial interest in a Settlement  
18 Trust may be disposed of to a person in a manner  
19 which would not be permitted by section 7(h) of the  
20 Alaska Native Claims Settlement Act (43 U.S.C.  
21 1606(h)) if the interest were Settlement Common  
22 Stock—

23 “(A) no election may be made under sub-  
24 section (b)(2) with respect to such trust, and

1           “(B) if such an election is in effect as of  
2           such time, such election shall cease to apply for  
3           purposes of subsection (b)(1) as of the 1st day  
4           of the taxable year following the taxable year in  
5           which such disposition is first permitted.

6           “(2) STOCK IN CORPORATION.—If—

7           “(A) the Settlement Common Stock in any  
8           Native Corporation which transferred assets to  
9           a Settlement Trust making an election under  
10          subsection (b)(2) may be disposed of to a per-  
11          son in a manner not permitted by section 7(h)  
12          of the Alaska Native Claims Settlement Act (43  
13          U.S.C. 1606(h)), and

14          “(B) at any time after such disposition of  
15          stock is first permitted, such corporation trans-  
16          fers assets to such trust,

17          subparagraph (B) of paragraph (1) shall be applied  
18          to such trust on and after the date of the transfer  
19          in the same manner as if the trust permitted dis-  
20          positions of beneficial interests in the trust in a  
21          manner not permitted by such section 7(h).

22          “(c) TAX TREATMENT OF DISTRIBUTIONS TO BENE-  
23          FICIARIES.—

24          “(1) IN GENERAL.—In the case of a Settlement  
25          Trust for which an election under subsection (b)(2)

1 is in effect for any taxable year, any distribution to  
2 a beneficiary shall be included in gross income of the  
3 beneficiary as ordinary income to the extent such  
4 distribution reduces the earnings and profits of any  
5 Native Corporation making a contribution to such  
6 Trust.

7 “(2) EARNINGS AND PROFITS.—The earnings  
8 and profits of any Native Corporation making a con-  
9 tribution to a Settlement Trust shall not be reduced  
10 on account thereof at the time of such contribution,  
11 but such earnings and profits shall be reduced (up  
12 to the amount of such contribution) as distributions  
13 are thereafter made by the Settlement Trust which  
14 exceed the sum of—

15 “(A) such Trust’s total undistributed net  
16 income for all prior years during which an elec-  
17 tion under subsection (b)(2) is in effect, and

18 “(B) such Trust’s distributable net income.

19 “(d) DEFINITIONS.—For purposes of this section—

20 “(1) NATIVE CORPORATION.—The term ‘Native  
21 Corporation’ has the meaning given such term by  
22 section 3(m) of the Alaska Native Claims Settlement  
23 Act (43 U.S.C. 1602(m)).

24 “(2) SETTLEMENT TRUST.—The term ‘Settle-  
25 ment Trust’ means a trust which constitutes a Set-

1       tlement Trust under section 39 of the Alaska Native  
2       Claims Settlement Act (43 U.S.C. 1629e).”

3       (b) WITHHOLDING ON DISTRIBUTIONS BY ELECTING  
4       ANCSA SETTLEMENT TRUSTS.—Section 3402 is amend-  
5       ed by adding at the end the following new subsection:

6       “(t) TAX WITHHOLDING ON DISTRIBUTIONS BY  
7       ELECTING ANCSA SETTLEMENT TRUSTS.—

8               “(1) IN GENERAL.—Any Settlement Trust (as  
9       defined in section 646(d)) for which an election  
10      under section 646(b)(2) is in effect (in this sub-  
11      section referred to as an ‘electing trust’) and which  
12      makes a payment to any beneficiary which is includ-  
13      able in gross income under section 646(c) shall de-  
14      duct and withhold from such payment a tax in an  
15      amount equal to such payment’s proportionate share  
16      of the annualized tax.

17              “(2) EXCEPTION.—The tax imposed by para-  
18      graph (1) shall not apply to any payment to the ex-  
19      tent that such payment, when annualized, does not  
20      exceed an amount equal to the amount in effect  
21      under section 6012(a)(1)(A)(i) for taxable years be-  
22      ginning in the calendar year in which the payment  
23      is made.

24              “(3) ANNUALIZED TAX.—For purposes of para-  
25      graph (1), the term ‘annualized tax’ means, with re-

1       spect to any payment, the amount of tax which  
2       would be imposed by section 1(c) (determined with-  
3       out regard to any rate of tax in excess of 31 per-  
4       cent) on an amount of taxable income equal to the  
5       excess of—

6               “(A) the annualized amount of such pay-  
7       ment, over

8               “(B) the amount determined under para-  
9       graph (2).

10              “(4) ANNUALIZATION.—For purposes of this  
11       subsection, amounts shall be annualized in the man-  
12       ner prescribed by the Secretary.

13              “(5) ALTERNATE WITHHOLDING PROCE-  
14       DURES.—At the election of an electing trust, the tax  
15       imposed by this subsection on any payment made by  
16       such trust shall be determined in accordance with  
17       such tables or computational procedures as may be  
18       specified in regulations prescribed by the Secretary  
19       (in lieu of in accordance with paragraphs (2) and  
20       (3)).

21              “(6) COORDINATION WITH OTHER SECTIONS.—  
22       For purposes of this chapter and so much of subtitle  
23       F as relates to this chapter, payments which are  
24       subject to withholding under this subsection shall be



1       treated as if they were wages paid by an employer  
2       to an employee.”

3       (c) REPORTING.—Section 6041 is amended by adding  
4       at the end the following new subsection:

5       “(f) APPLICATION TO ALASKA NATIVE SETTLEMENT  
6       TRUSTS.—In the case of any distribution from a Settle-  
7       ment Trust (as defined in section 646(d)) to a beneficiary  
8       which is includable in gross income under section 646(c),  
9       this section shall apply, except that—

10           “(1) this section shall apply to such distribution  
11       without regard to the amount thereof,

12           “(2) the Settlement Trust shall include on any  
13       return or statement required by this section infor-  
14       mation as to the character of such distribution (if  
15       applicable) and the amount of tax imposed by chap-  
16       ter 1 which has been deducted and withheld from  
17       such distribution, and

18           “(3) the filing of any return or statement re-  
19       quired by this section shall satisfy any requirement  
20       to file any other form or schedule under this title  
21       with respect to distributive share information (in-  
22       cluding any form or schedule to be included with the  
23       trust’s tax return).”

1 (d) CLERICAL AMENDMENT.—The table of sections  
2 for subpart A of part I of subchapter J of chapter 1 is  
3 amended by adding at the end the following new item:

“Sec. 646. Electing Alaska Native Settlement Trusts.”

4 (e) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to taxable years of Settlement  
6 Trusts ending after December 31, 1999, and to contribu-  
7 tions to such trusts after such date.

8 **SEC. 1333. INCREASE IN THRESHOLD FOR JOINT COM-**  
9 **MITTEE REPORTS ON REFUNDS AND CRED-**  
10 **ITS.**

11 (a) GENERAL RULE.—Subsections (a) and (b) of sec-  
12 tion 6405 are each amended by striking “\$1,000,000” and  
13 inserting “\$2,000,000”.

14 (b) EFFECTIVE DATE.—The amendment made by  
15 subsection (a) shall take effect on the date of the enact-  
16 ment of this Act, except that such amendment shall not  
17 apply with respect to any refund or credit with respect  
18 to a report that has been made before such date of enact-  
19 ment under section 6405 of the Internal Revenue Code  
20 of 1986.

1     **Subtitle E—Tax Court Provisions**

2     **SEC. 1341. TAX COURT FILING FEE IN ALL CASES COM-**  
3                   **MENCED BY FILING PETITION.**

4           (a) IN GENERAL.—Section 7451 (relating to fee for  
5     filing a Tax Court petition) is amended by striking all that  
6     follows “petition” and inserting a period.

7           (b) EFFECTIVE DATE.—The amendment made by  
8     this section shall take effect on the date of the enactment  
9     of this Act.

10    **SEC. 1342. EXPANDED USE OF TAX COURT PRACTICE FEE.**

11           Subsection (b) of section 7475 (relating to use of  
12     fees) is amended by inserting before the period at the end  
13     “and to provide services to pro se taxpayers”.

14    **SEC. 1343. CONFIRMATION OF AUTHORITY OF TAX COURT**  
15                   **TO APPLY DOCTRINE OF EQUITABLE**  
16                   **RECOUPMENT.**

17           (a) CONFIRMATION OF AUTHORITY OF TAX COURT  
18     TO APPLY DOCTRINE OF EQUITABLE RECOUPMENT.—  
19     Subsection (b) of section 6214 (relating to jurisdiction  
20     over other years and quarters) is amended by adding at  
21     the end the following new sentence: “Notwithstanding the  
22     preceding sentence, the Tax Court may apply the doctrine  
23     of equitable recoupment to the same extent that it is avail-  
24     able in civil tax cases before the district courts of the

1 United States and the United States Court of Federal  
2 Claims.”.

3 (b) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to any action or proceeding in the  
5 Tax Court with respect to which a decision has not become  
6 final (as determined under section 7481 of the Internal  
7 Revenue Code of 1986) as of the date of the enactment  
8 of this Act.

9 **TITLE XIV—EXTENSIONS OF**  
10 **EXPIRING PROVISIONS**

11 **SEC. 1401. RESEARCH CREDIT.**

12 (a) EXTENSION.—

13 (1) IN GENERAL.—Paragraph (1) of section  
14 41(h) (relating to termination) is amended—

15 (A) by striking “June 30, 1999” and in-  
16 serting “June 30, 2004”, and

17 (B) by striking the material following sub-  
18 paragraph (B).

19 (2) TECHNICAL AMENDMENT.—Subparagraph  
20 (D) of section 45C(b)(1) is amended by striking  
21 “June 30, 1999” and inserting “June 30, 2004”.

22 (3) EFFECTIVE DATE.—The amendments made  
23 by this subsection shall apply to amounts paid or in-  
24 curred after June 30, 1999.

1 (b) INCREASE IN PERCENTAGES UNDER ALTER-  
2 NATIVE INCREMENTAL CREDIT.—

3 (1) IN GENERAL.—Subparagraph (A) of section  
4 41(c)(4) is amended—

5 (A) by striking “1.65 percent” and insert-  
6 ing “2.65 percent”,

7 (B) by striking “2.2 percent” and inserting  
8 “3.2 percent”, and

9 (C) by striking “2.75 percent” and insert-  
10 ing “3.75 percent”.

11 (2) EFFECTIVE DATE.—The amendments made  
12 by this subsection shall apply to taxable years begin-  
13 ning after June 30, 1999.

14 **SEC. 1402. SUBPART F EXEMPTION FOR ACTIVE FINANCING**  
15 **INCOME.**

16 (a) IN GENERAL.—Sections 953(e)(10) and  
17 954(h)(9) are each amended—

18 (1) by striking “the first taxable year” and in-  
19 serting “taxable years”, and

20 (2) by striking “January 1, 2000” and insert-  
21 ing “January 1, 2005”.

22 (b) EFFECTIVE DATE.—The amendment made by  
23 this section shall apply to taxable years beginning after  
24 December 31, 1999.

1   **SEC. 1403. TAXABLE INCOME LIMIT ON PERCENTAGE DE-**  
2                   **PLETION FOR MARGINAL PRODUCTION.**

3           (a) IN GENERAL.—Subparagraph (H) of section  
4   613A(c)(6) is amended by striking “January 1, 2000” and  
5   inserting “January 1, 2005”.

6           (b) EFFECTIVE DATE.—The amendment made by  
7   this section shall apply to taxable years beginning after  
8   December 31, 1999.

9   **SEC. 1404. WORK OPPORTUNITY CREDIT AND WELFARE-TO-**  
10                   **WORK CREDIT.**

11          (a) TEMPORARY EXTENSION.—Sections 51(c)(4)(B)  
12   and 51A(f) (relating to termination) are each amended by  
13   striking “June 30, 1999” and inserting “June 30, 2001”.

14          (b) CLARIFICATION OF FIRST YEAR OF EMPLOY-  
15   MENT.—Paragraph (2) of section 51(i) is amended by  
16   striking “during which he was not a member of a targeted  
17   group”.

18          (c) ELECTRONIC FILING OF CERTIFICATION.—Not  
19   later than July 1, 2001, the Secretary of the Treasury  
20   or the Secretary’s delegate shall provide an electronic for-  
21   mat by which employers may submit requests to des-  
22   ignated local agencies (as defined in section 51(d)(11) of  
23   the Internal Revenue Code of 1986) for certifications that  
24   individuals are members of targeted groups for purposes  
25   of section 51 of such Code.

1 (d) EFFECTIVE DATE.—The amendments made by  
2 this section shall apply to individuals who begin work for  
3 the employer after June 30, 1999.

## 4 **TITLE XV—REVENUE OFFSETS**

### 5 **SEC. 1501. RETURNS RELATING TO CANCELLATIONS OF IN-** 6 **DEBTEDNESS BY ORGANIZATIONS LENDING** 7 **MONEY.**

8 (a) IN GENERAL.—Paragraph (2) of section  
9 6050P(c) (relating to definitions and special rules) is  
10 amended by striking “and” at the end of subparagraph  
11 (B), by striking the period at the end of subparagraph  
12 (C) and inserting “, and”, and by inserting after subpara-  
13 graph (C) the following new subparagraph:

14 “(D) any organization a significant trade  
15 or business of which is the lending of money.”

16 (b) EFFECTIVE DATE.—The amendment made by  
17 subsection (a) shall apply to discharges of indebtedness  
18 after December 31, 1999.

### 19 **SEC. 1502. EXTENSION OF INTERNAL REVENUE SERVICE** 20 **USER FEES.**

21 (a) IN GENERAL.—Chapter 77 (relating to miscella-  
22 neous provisions) is amended by adding at the end the  
23 following new section:

1   **“SEC. 7527. INTERNAL REVENUE SERVICE USER FEES.**

2           “(a) GENERAL RULE.—The Secretary shall establish  
3   a program requiring the payment of user fees for—

4               “(1) requests to the Internal Revenue Service  
5       for ruling letters, opinion letters, and determination  
6       letters, and

7               “(2) other similar requests.

8           “(b) PROGRAM CRITERIA.—

9               “(1) IN GENERAL.—The fees charged under the  
10   program required by subsection (a)—

11               “(A) shall vary according to categories (or  
12       subcategories) established by the Secretary,

13               “(B) shall be determined after taking into  
14       account the average time for (and difficulty of)  
15       complying with requests in each category (and  
16       subcategory), and

17               “(C) shall be payable in advance.

18               “(2) EXEMPTIONS, ETC.—The Secretary shall  
19       provide for such exemptions (and reduced fees)  
20       under such program as the Secretary determines to  
21       be appropriate.

22               “(3) AVERAGE FEE REQUIREMENT.—The aver-  
23       age fee charged under the program required by sub-  
24       section (a) shall not be less than the amount deter-  
25       mined under the following table:



<b>“Category</b>	<b>Average Fee</b>
Employee plan ruling and opinion .....	\$250
Exempt organization ruling .....	\$350
Employee plan determination .....	\$300
Exempt organization determination .....	\$275
Chief counsel ruling .....	\$200.

1       “(c) TERMINATION.—No fee shall be imposed under  
2 this section with respect to requests made after September  
3 30, 2007.”

4       (b) CONFORMING AMENDMENTS.—

5           (1) The table of sections for chapter 77 is  
6 amended by adding at the end the following new  
7 item:

“Sec. 7527. Internal Revenue Service user fees.”

8           (2) Section 10511 of the Revenue Act of 1987  
9 is repealed.

10       (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to requests made after the date  
12 of the enactment of this Act.

13 **SEC. 1503. LIMITATIONS ON WELFARE BENEFIT FUNDS OF**  
14 **10 OR MORE EMPLOYER PLANS.**

15       (a) BENEFITS TO WHICH EXCEPTION APPLIES.—  
16 Section 419A(f)(6)(A) (relating to exception for 10 or  
17 more employer plans) is amended to read as follows:

18           “(A) IN GENERAL.—This subpart shall not  
19 apply to a welfare benefit fund which is part of  
20 a 10 or more employer plan if the only benefits

1 provided through the fund are 1 or more of the  
2 following:

3 “(i) Medical benefits.

4 “(ii) Disability benefits.

5 “(iii) Group term life insurance bene-  
6 fits which do not provide for any cash sur-  
7 render value or other money that can be  
8 paid, assigned, borrowed, or pledged for  
9 collateral for a loan.

10 The preceding sentence shall not apply to any  
11 plan which maintains experience-rating arrange-  
12 ments with respect to individual employers.”

13 (b) LIMITATION ON USE OF AMOUNTS FOR OTHER  
14 PURPOSES.—Section 4976(b) (defining disqualified ben-  
15 efit) is amended by adding at the end the following new  
16 paragraph:

17 “(5) SPECIAL RULE FOR 10 OR MORE EM-  
18 PLOYER PLANS EXEMPTED FROM PREFUNDING LIM-  
19 ITS.—For purposes of paragraph (1)(C), if—

20 “(A) subpart D of part I of subchapter D  
21 of chapter 1 does not apply by reason of section  
22 419A(f)(6) to contributions to provide 1 or  
23 more welfare benefits through a welfare benefit  
24 fund under a 10 or more employer plan, and

1           “(B) any portion of the welfare benefit  
2           fund attributable to such contributions is used  
3           for a purpose other than that for which the con-  
4           tributions were made,  
5           then such portion shall be treated as reverting to the  
6           benefit of the employers maintaining the fund.”

7           (c) EFFECTIVE DATE.—The amendments made by  
8           this section shall apply to contributions paid or accrued  
9           after June 9, 1999, in taxable years ending after such  
10          date.

11   **SEC. 1504. INCREASE IN ELECTIVE WITHHOLDING RATE**  
12                           **FOR NONPERIODIC DISTRIBUTIONS FROM**  
13                           **DEFERRED COMPENSATION PLANS.**

14          (a) IN GENERAL.—Section 3405(b)(1) (relating to  
15          withholding) is amended by striking ‘10 percent’ and in-  
16          serting ‘15 percent’.

17          (b) EFFECTIVE DATE.—The amendment made by  
18          subsection (a) shall apply to distributions after December  
19          31, 1999.

20   **SEC. 1505. CONTROLLED ENTITIES INELIGIBLE FOR REIT**  
21                           **STATUS.**

22          (a) IN GENERAL.—Subsection (a) of section 856 (re-  
23          lating to definition of real estate investment trust) is  
24          amended by striking “and” at the end of paragraph (6),

1 by redesignating paragraph (7) as paragraph (8), and by  
2 inserting after paragraph (6) the following new paragraph:

3 “(7) which is not a controlled entity (as defined  
4 in subsection (l)); and”.

5 (b) CONTROLLED ENTITY.—Section 856 is amended  
6 by adding at the end the following new subsection:

7 “(l) CONTROLLED ENTITY.—

8 “(1) IN GENERAL.—For purposes of subsection  
9 (a)(7), an entity is a controlled entity if, at any time  
10 during the taxable year, one person (other than a  
11 qualified entity)—

12 “(A) in the case of a corporation, owns  
13 stock—

14 “(i) possessing at least 50 percent of  
15 the total voting power of the stock of such  
16 corporation, or

17 “(ii) having a value equal to at least  
18 50 percent of the total value of the stock  
19 of such corporation,

20 “(B) in the case of a partnership, owns at  
21 least 50 percent of the capital or profits inter-  
22 ests in the partnership, or

23 “(C) in the case of a trust, owns at least  
24 50 percent of the beneficial interests in the  
25 trust.

1           “(2) QUALIFIED ENTITY.—For purposes of  
2 paragraph (1), the term ‘qualified entity’ means—

3           “(A) any real estate investment trust, and

4           “(B) any partnership in which one real es-  
5 tate investment trust owns at least 50 percent  
6 of the capital and profits interests in the part-  
7 nership.

8           “(3) ATTRIBUTION RULES.—For purposes of  
9 this paragraphs (1) and (2)—

10           “(A) IN GENERAL.—Rules similar to the  
11 rules of subsections (d)(5) and (h)(3) shall  
12 apply.

13           “(B) STAPLED ENTITIES.—A group of en-  
14 tities which are stapled entities (as defined in  
15 section 269B(c)(2)) shall be treated as 1 per-  
16 son.

17           “(4) EXCEPTION FOR CERTAIN NEW REITS.—

18           “(A) IN GENERAL.—The term ‘controlled  
19 entity’ shall not include an incubator REIT.

20           “(B) INCUBATOR REIT.—A corporation  
21 shall be treated as an incubator REIT for any  
22 taxable year during the eligibility period if it  
23 meets all the following requirements for such  
24 year:

1                   “(i) The corporation elects to be treat-  
2                   ed as an incubator REIT.

3                   “(ii) The corporation has only voting  
4                   common stock outstanding.

5                   “(iii) Not more than 50 percent of the  
6                   corporation’s real estate assets consist of  
7                   mortgages.

8                   “(iv) From not later than the begin-  
9                   ning of the last half of the second taxable  
10                  year, at least 10 percent of the corpora-  
11                  tion’s capital is provided by lenders or eq-  
12                  uity investors who are unrelated to the cor-  
13                  poration’s largest shareholder.

14                  “(v) The directors of the corporation  
15                  adopt a resolution setting forth an intent  
16                  to engage in a going public transaction.

17                  No election may be made with respect to any  
18                  REIT if an election under this subsection was  
19                  in effect for any predecessor of such REIT.

20                  “(C) ELIGIBILITY PERIOD.—The eligibility  
21                  period (for which an incubator REIT election  
22                  can be made) begins with the REIT’s second  
23                  taxable year and ends at the close of the  
24                  REIT’s third taxable year, but, subject to the

1 following rules, it may be extended for an addi-  
2 tional 2 taxable years if the REIT so elects:

3 “(i) A REIT cannot elect to extend  
4 the eligibility period unless it agrees that,  
5 if it does not engage in a going public  
6 transaction by the end of the extended eli-  
7 gibility period, it shall pay Federal income  
8 taxes for the 2 years of the extended eligi-  
9 bility period as if it had not made an incu-  
10 bator REIT election and had ceased to  
11 qualify as a REIT for those 2 taxable  
12 years.

13 “(ii) In the event the corporation  
14 ceases to be treated as a REIT by oper-  
15 ation of clause (i), the corporation shall file  
16 any appropriate amended returns reflecting  
17 the change in status within 3 months of  
18 the close of the extended eligibility period.  
19 Interest would be payable but, unless there  
20 was a finding under subparagraph (D), no  
21 substantial underpayment penalties shall  
22 be imposed. The corporation shall, at the  
23 same time, also notify its shareholders and  
24 any other persons whose tax position is, or  
25 may reasonably be expected to be, affected

1 by the change in status so they also may  
2 file any appropriate amended returns to  
3 conform their tax treatment consistent  
4 with the corporation's loss of REIT status.  
5 The Secretary shall provide appropriate  
6 regulations setting forth transferee liability  
7 and other provisions to ensure collection of  
8 tax and the proper administration of this  
9 provision.

10 “(iii) Clause (i) and (ii) shall not  
11 apply if the corporation allows its incu-  
12 bator REIT status to lapse at the end of  
13 the initial 2-year eligibility period without  
14 engaging in a going public transaction,  
15 provided the corporation satisfies the re-  
16 quirements of the closely-held test com-  
17 mencing with its fourth taxable year. In  
18 such a case, the corporation's directors  
19 may still be liable for the penalties de-  
20 scribed in subparagraph (D) during the eli-  
21 gibility period.

22 “(D) SPECIAL PENALTIES.—If the Sec-  
23 retary determines that an incubator REIT elec-  
24 tion was filed for a principal purpose other than  
25 as part of a reasonable plan to undertake a



1           going public transaction, an excise tax of  
2           \$20,000 would be imposed on each of the cor-  
3           poration's directors for each taxable year for  
4           which an election was in effect.

5           “(E) GOING PUBLIC TRANSACTION.—For  
6           purposes of this paragraph, a going public  
7           transaction means—

8                   “(i) a public offering of shares of the  
9                   stock of the incubator REIT;

10                   “(ii) a transaction, or series of trans-  
11                   actions, that results in the stock of the in-  
12                   cubator REIT being regularly traded on an  
13                   established securities market and that re-  
14                   sults in at least 50 percent of such stock  
15                   being held by shareholders who are unre-  
16                   lated to persons who held such stock before  
17                   it began to be so regularly traded; or

18                   “(iii) any transaction resulting in  
19                   ownership of the REIT by 200 or more  
20                   persons (excluding the largest single share-  
21                   holder) who in the aggregate own at least  
22                   50 percent of the stock of the REIT.

23           For the purposes of this subparagraph, the  
24           rules of section 318 shall apply in determining  
25           the ownership of stock.

1                   “(F) DEFINITIONS.—The term “estab-  
2                   lished securities market” shall have the mean-  
3                   ing set forth in the regulations under section  
4                   897.”

5           (c) CONFORMING AMENDMENT.—Paragraph (2) of  
6 section 856(h) is amended by striking “and (6)” each  
7 place it appears and inserting “, (6), and (7)”.

8           (d) EFFECTIVE DATE.—

9                   (1) IN GENERAL.—The amendments made by  
10 this section shall apply to taxable years ending after  
11 July 12, 1999.

12                   (2) EXCEPTION FOR EXISTING CONTROLLED  
13 ENTITIES.—The amendments made by this section  
14 shall not apply to any entity which is a controlled  
15 entity (as defined in section 856(l) of the Internal  
16 Revenue Code of 1986, as added by this section) as  
17 of July 12, 1999, and which has significant business  
18 assets or activities as of such date.

19 **SEC. 1506. TREATMENT OF GAIN FROM CONSTRUCTIVE**  
20 **OWNERSHIP TRANSACTIONS.**

21           (a) IN GENERAL.—Part IV of subchapter P of chap-  
22 ter 1 (relating to special rules for determining capital  
23 gains and losses) is amended by inserting after section  
24 1259 the following new section:

1 **“SEC. 1260. GAINS FROM CONSTRUCTIVE OWNERSHIP**  
2 **TRANSACTIONS.**

3 “(a) IN GENERAL.—If the taxpayer has gain from  
4 a constructive ownership transaction with respect to any  
5 financial asset and such gain would (without regard to this  
6 section) be treated as a long-term capital gain—

7 “(1) such gain shall be treated as ordinary in-  
8 come to the extent that such gain exceeds the net  
9 underlying long-term capital gain, and

10 “(2) to the extent such gain is treated as a  
11 long-term capital gain after the application of para-  
12 graph (1), the determination of the capital gain rate  
13 (or rates) applicable to such gain under section 1(h)  
14 shall be determined on the basis of the respective  
15 rate (or rates) that would have been applicable to  
16 the net underlying long-term capital gain.

17 “(b) INTEREST CHARGE ON DEFERRAL OF GAIN  
18 RECOGNITION.—

19 “(1) IN GENERAL.—If any gain is treated as  
20 ordinary income for any taxable year by reason of  
21 subsection (a)(1), the tax imposed by this chapter  
22 for such taxable year shall be increased by the  
23 amount of interest determined under paragraph (2)  
24 with respect to each prior taxable year during any  
25 portion of which the constructive ownership trans-  
26 action was open. Any amount payable under this

1 paragraph shall be taken into account in computing  
2 the amount of any deduction allowable to the tax-  
3 payer for interest paid or accrued during such tax-  
4 able year.

5 “(2) AMOUNT OF INTEREST.—The amount of  
6 interest determined under this paragraph with re-  
7 spect to a prior taxable year is the amount of inter-  
8 est which would have been imposed under section  
9 6601 on the underpayment of tax for such year  
10 which would have resulted if the gain (which is  
11 treated as ordinary income by reason of subsection  
12 (a)(1)) had been included in gross income in the tax-  
13 able years in which it accrued (determined by treat-  
14 ing the income as accruing at a constant rate equal  
15 to the applicable Federal rate as in effect on the day  
16 the transaction closed). The period during which  
17 such interest shall accrue shall end on the due date  
18 (without extensions) for the return of tax imposed  
19 by this chapter for the taxable year in which such  
20 transaction closed.

21 “(3) APPLICABLE FEDERAL RATE.—For pur-  
22 poses of paragraph (2), the applicable Federal rate  
23 is the applicable Federal rate determined under  
24 1274(d) (compounded semiannually) which would

1       apply to a debt instrument with a term equal to the  
2       period the transaction was open.

3               “(4) NO CREDITS AGAINST INCREASE IN TAX.—  
4       Any increase in tax under paragraph (1) shall not  
5       be treated as tax imposed by this chapter for pur-  
6       poses of determining—

7               “(A) the amount of any credit allowable  
8       under this chapter, or

9               “(B) the amount of the tax imposed by  
10       section 55.

11       “(c) FINANCIAL ASSET.—For purposes of this  
12       section—

13               “(1) IN GENERAL.—The term ‘financial asset’  
14       means—

15               “(A) any equity interest in any pass-thru  
16       entity, and

17               “(B) to the extent provided in  
18       regulations—

19               “(i) any debt instrument, and

20               “(ii) any stock in a corporation which  
21       is not a pass-thru entity.

22       “(2) PASS-THRU ENTITY.—For purposes of  
23       paragraph (1), the term ‘pass-thru entity’ means—

24               “(A) a regulated investment company,

25               “(B) a real estate investment trust,

1 “(C) an S corporation,

2 “(D) a partnership,

3 “(E) a trust,

4 “(F) a common trust fund,

5 “(G) a passive foreign investment company

6 (as defined in section 1297),

7 “(H) a foreign personal holding company,

8 and

9 “(I) a foreign investment company (as de-  
10 fined in section 1246(b)).

11 “(d) CONSTRUCTIVE OWNERSHIP TRANSACTION.—

12 For purposes of this section—

13 “(1) IN GENERAL.—The taxpayer shall be  
14 treated as having entered into a constructive owner-  
15 ship transaction with respect to any financial asset  
16 if the taxpayer—

17 “(A) holds a long position under a notional  
18 principal contract with respect to the financial  
19 asset,

20 “(B) enters into a forward or futures con-  
21 tract to acquire the financial asset,

22 “(C) is the holder of a call option, and is  
23 the grantor of a put option, with respect to the  
24 financial asset and such options have substan-

1           tially equal strike prices and substantially con-  
2           temporaneous maturity dates, or

3           “(D) to the extent provided in regulations  
4           prescribed by the Secretary, enters into 1 or  
5           more other transactions (or acquires 1 or more  
6           positions) that have substantially the same ef-  
7           fect as a transaction described in any of the  
8           preceding subparagraphs.

9           “(2) EXCEPTION FOR POSITIONS WHICH ARE  
10          MARKED TO MARKET.—This section shall not apply  
11          to any constructive ownership transaction if all of  
12          the positions which are part of such transaction are  
13          marked to market under any provision of this title  
14          or the regulations thereunder.

15          “(3) LONG POSITION UNDER NOTIONAL PRIN-  
16          CIPAL CONTRACT.—A person shall be treated as  
17          holding a long position under a notional principal  
18          contract with respect to any financial asset if such  
19          person—

20                 “(A) has the right to be paid (or receive  
21                 credit for) all or substantially all of the invest-  
22                 ment yield (including appreciation) on such fi-  
23                 nancial asset for a specified period, and

1                   “(B) is obligated to reimburse (or provide  
2                   credit for) all or substantially all of any decline  
3                   in the value of such financial asset.

4                   “(4) FORWARD CONTRACT.—The term ‘forward  
5                   contract’ means any contract to acquire in the fu-  
6                   ture (or provide or receive credit for the future value  
7                   of) any financial asset.

8                   “(e) NET UNDERLYING LONG-TERM CAPITAL  
9                   GAIN.—For purposes of this section, in the case of any  
10                  constructive ownership transaction with respect to any fi-  
11                  nancial asset, the term ‘net underlying long-term capital  
12                  gain’ means the aggregate net capital gain that the tax-  
13                  payer would have had if—

14                  “(1) the financial asset had been acquired for  
15                  fair market value on the date such transaction was  
16                  opened and sold for fair market value on the date  
17                  such transaction was closed, and

18                  “(2) only gains and losses that would have re-  
19                  sulted from the deemed ownership under paragraph  
20                  (1) were taken into account.

21                  The amount of the net underlying long-term capital gain  
22                  with respect to any financial asset shall be treated as zero  
23                  unless the amount thereof is established by clear and con-  
24                  vincing evidence.



1       “(f) SPECIAL RULE WHERE TAXPAYER TAKES DE-  
2 LIVERY.—Except as provided in regulations prescribed by  
3 the Secretary, if a constructive ownership transaction is  
4 closed by reason of taking delivery, this section shall be  
5 applied as if the taxpayer had sold all the contracts, op-  
6 tions, or other positions which are part of such transaction  
7 for fair market value on the closing date. The amount of  
8 gain recognized under the preceding sentence shall not ex-  
9 ceed the amount of gain treated as ordinary income under  
10 subsection (a). Proper adjustments shall be made in the  
11 amount of any gain or loss subsequently realized for gain  
12 recognized and treated as ordinary income under this sub-  
13 section.

14       “(g) REGULATIONS.—The Secretary shall prescribe  
15 such regulations as may be necessary or appropriate to  
16 carry out the purposes of this section, including  
17 regulations—

18               “(1) to permit taxpayers to mark to market  
19 constructive ownership transactions in lieu of apply-  
20 ing this section, and

21               “(2) to exclude certain forward contracts which  
22 do not convey substantially all of the economic re-  
23 turn with respect to a financial asset.”

1 (b) CLERICAL AMENDMENT.—The table of sections  
2 for part IV of subchapter P of chapter 1 is amended by  
3 adding at the end the following new item:

“Sec. 1260. Gains from constructive ownership transactions.”.

4 (c) EFFECTIVE DATE.—The amendments made by  
5 this section shall apply to transactions entered into after  
6 July 11, 1999.

7 **SEC. 1507. TRANSFER OF EXCESS DEFINED BENEFIT PLAN**  
8 **ASSETS FOR RETIREE HEALTH BENEFITS.**

9 (a) EXTENSION.—Paragraph (5) of section 420(b)  
10 (relating to expiration) is amended by striking “in any  
11 taxable year beginning after December 31, 2000” and in-  
12 serting “made after September 30, 2009”.

13 (b) APPLICATION OF MINIMUM COST REQUIRE-  
14 MENTS.—

15 (1) IN GENERAL.—Paragraph (3) of section  
16 420(c) is amended to read as follows:

17 “(3) MINIMUM COST REQUIREMENTS.—

18 “(A) IN GENERAL.—The requirements of  
19 this paragraph are met if each group health  
20 plan or arrangement under which applicable  
21 health benefits are provided provides that the  
22 applicable employer cost for each taxable year  
23 during the cost maintenance period shall not be  
24 less than the higher of the applicable employer  
25 costs for each of the 2 taxable years imme-

1           diately preceding the taxable year of the quali-  
2           fied transfer.

3           “(B) APPLICABLE EMPLOYER COST.—For  
4           purposes of this paragraph, the term ‘applicable  
5           employer cost’ means, with respect to any tax-  
6           able year, the amount determined by dividing—

7                   “(i) the qualified current retiree  
8                   health liabilities of the employer for such  
9                   taxable year determined—

10                   “(I) without regard to any reduc-  
11                   tion under subsection (e)(1)(B), and

12                   “(II) in the case of a taxable  
13                   year in which there was no qualified  
14                   transfer, in the same manner as if  
15                   there had been such a transfer at the  
16                   end of the taxable year, by

17                   “(ii) the number of individuals to  
18                   whom coverage for applicable health bene-  
19                   fits was provided during such taxable year.

20           “(C) ELECTION TO COMPUTE COST SEPA-  
21           RATELY.—An employer may elect to have this  
22           paragraph applied separately with respect to in-  
23           dividuals eligible for benefits under title XVIII  
24           of the Social Security Act at any time during

1 the taxable year and with respect to individuals  
2 not so eligible.

3 “(D) COST MAINTENANCE PERIOD.—For  
4 purposes of this paragraph, the term ‘cost  
5 maintenance period’ means the period of 5 tax-  
6 able years beginning with the taxable year in  
7 which the qualified transfer occurs. If a taxable  
8 year is in 2 or more overlapping cost mainte-  
9 nance periods, this paragraph shall be applied  
10 by taking into account the highest applicable  
11 employer cost required to be provided under  
12 subparagraph (A) for such taxable year.”

13 (2) CONFORMING AMENDMENTS.—

14 (A) Clause (iii) of section 420(b)(1)(C) is  
15 amended by striking “benefits” and inserting  
16 “cost”.

17 (B) Subparagraph (D) of section 420(e)(1)  
18 is amended by striking “and shall not be sub-  
19 ject to the minimum benefit requirements of  
20 subsection (c)(3)” and inserting “or in calcu-  
21 lating applicable employer cost under subsection  
22 (c)(3)(B)”.

23 (c) EFFECTIVE DATE.—The amendments made by  
24 this section shall apply to qualified transfers occurring  
25 after the date of the enactment of this Act.

1 **SEC. 1508. MODIFICATION OF INSTALLMENT METHOD AND**  
2 **REPEAL OF INSTALLMENT METHOD FOR AC-**  
3 **CRUAL METHOD TAXPAYERS.**

4 (a) REPEAL OF INSTALLMENT METHOD FOR AC-  
5 CRUAL BASIS TAXPAYERS.—

6 (1) IN GENERAL.—Subsection (a) of section  
7 453 (relating to installment method) is amended to  
8 read as follows:

9 “(a) USE OF INSTALLMENT METHOD.—

10 “(1) IN GENERAL.—Except as otherwise pro-  
11 vided in this section, income from an installment  
12 sale shall be taken into account for purposes of this  
13 title under the installment method.

14 “(2) ACCRUAL METHOD TAXPAYER.—The in-  
15 stallment method shall not apply to income from an  
16 installment sale if such income would be reported  
17 under an accrual method of accounting without re-  
18 gard to this section. The preceding sentence shall  
19 not apply to a disposition described in subparagraph  
20 (A) or (B) of subsection (l)(2).”

21 (2) CONFORMING AMENDMENTS.—Sections  
22 453(d)(1), 453(i)(1), and 453(k) are each amended  
23 by striking “(a)” each place it appears and inserting  
24 “(a)(1)”.

25 (b) MODIFICATION OF PLEDGE RULES.—Paragraph  
26 (4) of section 453A(d) (relating to pledges, etc., of install-

1 ment obligations) is amended by adding at the end the  
2 following: “A payment shall be treated as directly secured  
3 by an interest in an installment obligation to the extent  
4 an arrangement allows the taxpayer to satisfy all or a por-  
5 tion of the indebtedness with the installment obligation.”

6 (c) EFFECTIVE DATE.—The amendments made by  
7 this section shall apply to sales or other dispositions occur-  
8 ring on or after the date of the enactment of this Act.

9 **TITLE XVI—TECHNICAL**  
10 **CORRECTIONS**

11 **SEC. 1601. AMENDMENTS RELATED TO TAX AND TRADE RE-**  
12 **LIEF EXTENSION ACT OF 1998.**

13 (a) AMENDMENT RELATED TO SECTION 1004(b) OF  
14 THE ACT.—Subsection (d) of section 6104 is amended by  
15 adding at the end the following new paragraph:

16 “(6) APPLICATION TO NONEXEMPT CHARI-  
17 TABLE TRUSTS AND NONEXEMPT PRIVATE FOUNDA-  
18 TIONS.—The organizations referred to in paragraphs  
19 (1) and (2) of section 6033(d) shall comply with the  
20 requirements of this subsection relating to annual  
21 returns filed under section 6033 in the same manner  
22 as the organizations referred to in paragraph (1).”

23 (b) AMENDMENTS RELATED TO SECTION 4003 OF  
24 THE ACT.—

1           (1) Subsection (b) of section 4003 of the Tax  
2           and Trade Relief Extension Act of 1998 is amended  
3           by inserting “(7)(A)(i)(II),” after “(5)(A)(ii)(I),”.

4           (2) Subparagraph (A) of section 9510(c)(1) is  
5           amended by striking “August 5, 1997” and insert-  
6           ing “October 21, 1998”.

7           (c) VACCINE TAX AND TRUST FUND.—Sections 1503  
8           and 1504 of the Vaccine Injury Compensation Program  
9           Modification Act (and the amendments made by such sec-  
10          tions) are hereby repealed.

11          (d) EFFECTIVE DATE.—The amendments made by  
12          this section shall take effect as if included in the provisions  
13          of the Tax and Trade Relief Extension Act of 1998 to  
14          which they relate.

15   **SEC. 1602. AMENDMENTS RELATED TO INTERNAL REVENUE**  
16                   **SERVICE RESTRUCTURING AND REFORM ACT**  
17                   **OF 1998.**

18          (a) AMENDMENT RELATED TO 1103 OF THE ACT.—  
19          Paragraph (6) of section 6103(k) is amended—

20               (1) by inserting “and an officer or employee of  
21               the Office of Treasury Inspector General for Tax  
22               Administration” after “internal revenue officer or  
23               employee”, and

24               (2) by striking “INTERNAL REVENUE” in the  
25               heading and inserting “CERTAIN”.

1 (b) AMENDMENT RELATED TO SECTION 3509 OF  
2 THE ACT.—Subparagraph (A) of section 6110(g)(5) is  
3 amended by inserting “, any Chief Counsel advice,” after  
4 “technical advice memorandum”.

5 (c) EFFECTIVE DATE.—The amendments made by  
6 this section shall take effect as if included in the provisions  
7 of the Internal Revenue Service Restructuring and Reform  
8 Act of 1998 to which they relate.

9 **SEC. 1603. AMENDMENTS RELATED TO TAXPAYER RELIEF**  
10 **ACT OF 1997.**

11 (a) AMENDMENT RELATED TO SECTION 302 OF THE  
12 ACT.—The last sentence of section 3405(e)(1)(B) is  
13 amended by inserting “(other than a Roth IRA)” after  
14 “individual retirement plan”.

15 (b) AMENDMENTS RELATED TO SECTION 1072 OF  
16 THE ACT.—

17 (1) Clause (ii) of section 415(c)(3)(D) and sub-  
18 paragraph (B) of section 403(b)(3) are each amend-  
19 ed by striking “section 125 or” and inserting “sec-  
20 tion 125, 132(f)(4), or”.

21 (2) Paragraph (2) of section 414(s) is amended  
22 by striking “section 125, 402(e)(3)” and inserting  
23 “section 125, 132(f)(4), 402(e)(3)”.

24 (c) AMENDMENT RELATED TO SECTION 1454 OF  
25 THE ACT.—Subsection (a) of section 7436 is amended by



1 inserting before the period at the end of the first sentence  
2 “and the proper amount of employment tax under such  
3 determination”.

4 (d) EFFECTIVE DATE.—The amendments made by  
5 this section shall take effect as if included in the provisions  
6 of the Taxpayer Relief of 1997 to which they relate.

7 **SEC. 1604. OTHER TECHNICAL CORRECTIONS.**

8 (a) AFFILIATED CORPORATIONS IN CONTEXT OF  
9 WORTHLESS SECURITIES.—

10 (1) Subparagraph (A) of section 165(g)(3) is  
11 amended to read as follows:

12 “(A) the taxpayer owns directly stock in  
13 such corporation meeting the requirements of  
14 section 1504(a)(2), and”.

15 (2) Paragraph (3) of section 165(g) is amended  
16 by striking the last sentence.

17 (3) The amendments made by this subsection  
18 shall apply to taxable years beginning after Decem-  
19 ber 31, 1984.

20 (b) REFERENCE TO CERTAIN STATE PLANS.—

21 (1) Subparagraph (B) of section 51(d)(2) is  
22 amended—

23 (A) by striking “plan approved” and in-  
24 serting “program funded”, and

1 (B) by striking “(relating to assistance for  
2 needy families with minor children)”.

3 (2) The amendment made by paragraph (1)  
4 shall take effect as if included in the amendments  
5 made by section 1201 of the Small Business Job  
6 Protection Act of 1996.

7 (c) AMOUNT OF IRA CONTRIBUTION OF LESSER  
8 EARNING SPOUSE.—

9 (1) Clause (ii) of section 219(c)(1)(B) is  
10 amended by striking “and” at the end of subclause  
11 (I), by redesignating subclause (II) as subclause  
12 (III), and by inserting after subclause (I) the fol-  
13 lowing new subclause:

14 “(II) the amount of any des-  
15 ignated nondeductible contribution (as  
16 defined in section 408(o)) on behalf of  
17 such spouse for such taxable year,  
18 and”.

19 (2) The amendment made by paragraph (1)  
20 shall apply to taxable years beginning after Decem-  
21 ber 31, 1999.

22 (d) MODIFIED ENDOWMENT CONTRACTS.—

23 (1) Paragraph (2) of section 7702A(a) is  
24 amended by inserting “or this paragraph” before the  
25 period.

1           (2) Clause (ii) of section 7702A(c)(3)(A) is  
2           amended by striking “under the contract” and in-  
3           serting “under the old contract”.

4           (3) The amendments made by this subsection  
5           shall take effect as if included in the amendments  
6           made by section 5012 of the Technical and Miscella-  
7           neous Revenue Act of 1988.

8           (e) LUMP-SUM DISTRIBUTIONS.—

9           (1) Clause (ii) of section 401(k)(10)(B) is  
10          amended by adding at the end the following new  
11          sentence: “Such term includes a distribution of an  
12          annuity contract from—

13                       “(I) a trust which forms a part  
14                       of a plan described in section 401(a)  
15                       and which is exempt from tax under  
16                       section 501(a), or

17                       “(II) an annuity plan described  
18                       in section 403(a).”

19          (2) The amendment made by paragraph (1)  
20          shall take effect as if included in section 1401 of the  
21          Small Business Job Protection Act of 1996.

22          (f) TENTATIVE CARRYBACK ADJUSTMENTS OF  
23          LOSSES FROM SECTION 1256 CONTRACTS.—

1           (1) Subsection (a) of section 6411 is amended  
2           by striking “section 1212(a)(1)” and inserting “sub-  
3           section (a)(1) or (c) of section 1212”.

4           (2) The amendment made by paragraph (1)  
5           shall take effect as if included in the amendments  
6           made by section 504 of the Economic Recovery Tax  
7           Act of 1981.

8   **SEC. 1605. CLERICAL CHANGES.**

9           (1) Subsection (f) of section 67 is amended by  
10          striking “the last sentence” and inserting “the sec-  
11          ond sentence”.

12          (2) The heading for paragraph (5) of section  
13          408(d) is amended to read as follows:

14                 “(5) DISTRIBUTIONS OF EXCESS CONTRIBU-  
15          TIONS AFTER DUE DATE FOR TAXABLE YEAR AND  
16          CERTAIN EXCESS ROLLOVER CONTRIBUTIONS.—”.

17          (3) The heading for subparagraph (B) of sec-  
18          tion 529(e)(3) is amended by striking “UNDER  
19          GUARANTEED PLANS”.

20          (4)(A) Subsection (e) of section 678 is amended  
21          by striking “an electing small business corporation”  
22          and inserting “an S corporation”.

23          (B) Clause (v) of section 6103(e)(1)(D) is  
24          amended to read as follows:

1                   “(v) if the corporation was an S cor-  
2                   poration, any person who was a share-  
3                   holder during any part of the period cov-  
4                   ered by such return during which an elec-  
5                   tion under section 1362(a) was in effect,  
6                   or”.

7                   (5) Subparagraph (B) of section 995(b)(3) is  
8                   amended by striking “the Military Security Act of  
9                   1954 (22 U.S.C. 1934)” and inserting “section 38  
10                  of the International Security Assistance and Arms  
11                  Export Control Act of 1976 (22 U.S.C. 2778)”.

12                  (6) Subparagraph (B) of section 4946(c)(3) is  
13                  amended by striking “the lowest rate of compensa-  
14                  tion prescribed for GS-16 of the General Schedule  
15                  under section 5332” and inserting “the lowest rate  
16                  of basic pay for the Senior Executive Service under  
17                  section 5382”.